BIDU gideon lens

■# Baidu (BIDU) - Gideon-Lens Equity Research

Date: 2026-05-28. Analyst: Codex ER2. Price: USD130.84 per ADS. Market cap: approximately USD44.5 billion. Fiscal year end: December 31.

VERDICT BLOCK

Verdict: PASS

Scorecard:

Gate	Result	Notes
Management	FAIL	Founder control, VIE, FCF, impairment, disclosure gaps override AI evidence
Moat	YELLOW	Real AI/search assets; 2046 profit-pool durability remains unresolved
P/E <= 15 on confident EPS at TTM + 5 calendar years	PASS	Base EPS USD9.91 vs required USD8.72; 13.6% cushion
Compounder Score	Audited 36 / 100	Reject classification; diagnostic only, consistent with hard-gate concerns
Business Quality Score	Audited 33 / 80	Quality evidence too weak for dream-business status
20% Return UW Score	Audited 3 / 20	Base 15x return about 2.6%; 20% case fails

One-line thesis (or reason to pass): Baidu has real AI assets and a narrow valuation pass, but the evidence does not yet prove a high-return, minority-shareholder-friendly compounder.

Kill / trigger criteria:

- BUY trigger: no price-only BUY trigger while management is FAIL; diagnostic 20% return buy price is about USD59.72, and qualitative gates must improve first.
- PASS triggers: online marketing worse than -15% YoY for two more quarters; Baidu General Business normalized operating margin below 12%; AI Cloud growth without disclosed margin/cash conversion.
- Upgrade to BUY conditions: management improves disclosure on AI Cloud/Apollo economics, FCF turns sustainably positive, VIE/control risk is compensated by a much lower price, and moat evidence moves from YELLOW to PASS.

Position sizing if bought: 0% of equity book while verdict is PASS; revisit only after gate repair, not merely after a share-price decline.

Stage 0 - Time Anchor

Today is 2026-05-28. Baidu's fiscal year ends December 31. The most recently reported quarter is Q1 2026, period ended March 31, 2026. The TTM anchor is Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, producing TTM ending March 31, 2026. The forward horizon is TTM + 5 calendar years, or March 31, 2031. Every forward EPS, P/E 15 test, and "FY+5" reference in this report uses that exact five-year horizon rather than an FY-1 shortcut.

Stage 1 - Disqualifier Sweep

ROIC was yellow/red because Baidu's five-year median adjusted ROIC is low and FY2025 was impairment-distorted, so it does not show a persistent 15% plus compounder pattern. FCF conversion was yellow because the longer record includes cash generation, but FY2025 free cash flow was negative RMB16.430 billion. Net debt was green because Baidu has a large cash and investments position versus debt. End-markets were yellow because AI demand is growing, but legacy online marketing is declining sharply. Governance was red/yellow because founder voting control, VIE dependence, and foreign-issuer opacity are central underwriting risks. AI disruption exposure was yellow because Baidu is both attacker and disrupted incumbent. Pricing power was yellow because search intent has value, but AI Cloud and streaming economics are more competitive.

Management

The management appendix gives Baidu a hard FAIL under the Gideon gate. That is not a claim that Robin Li is a poor operator. The opposite is partly true: the AI pivot is coherent, Q1 2026 AI-powered business reached RMB13.6 billion and 52% of Baidu General Business revenue, AI Cloud Infra grew quickly, and Apollo Go has real operating scale. The fail is about investability at the Gideon bar. Robin Li controlled about 59.9% of voting rights as of January 31, 2026, VIEs contributed roughly half of 2025 external revenue, and Beijing Baidu Netcom is nominee-owned rather than equity-owned by the listed company. FY2025 also included negative free cash flow and a RMB16.190 billion impairment, while product-level margins for AI Cloud, AI Applications, Apollo, and Kunlunxin remain undisclosed. The new USD5 billion buyback authorization and first dividend policy are positives, but they are too recent to establish a decade-long per-share compounding record.

Moat

The moat appendix lands at YELLOW, including the 2046 durability test. Baidu owns valuable assets: Chinese search intent, advertiser relationships, ERNIE and PaddlePaddle, domestic AI infrastructure, AI application distribution, Apollo operating data, and a large cash base. A credible 2046 Baidu still could be a Chinese AI operating layer that sells AI-mediated intent, local AI cloud/model infrastructure, enterprise workflows, and approved autonomous mobility services. The problem is not whether the assets exist. The problem is whether they form an enduring high-return profit pool after legacy search monetization migrates toward AI answers and enterprise AI infrastructure absorbs more capital. iQIYI does not carry the moat case; it is a stabilizing media asset at best. The moat upgrades only if AI-powered revenue comes with durable margins, switching costs, and visible cash conversion.

Stage 5 Synthesis

The synthesis produces a deliberately split answer. Mechanically, the base case clears the P/E 15 test. Base-case TTM+5 revenue is RMB162.911 billion, operating income is RMB26.553 billion, normalized net income attributable to Baidu is RMB23.003 billion, and EPS is USD9.91 per ADS. At the current USD130.84 ADS price, the required EPS for a 15x P/E is USD8.72, so the base case has a 13.6% cushion. The bull case also clears. The bear case fails.

Case	TTM+5 Revenue	TTM+5 OI	EPS per ADS	P/E 15 Value	Result
Bear	Lower transition outcome	Lower margin	Below hurdle	Below current price	Fails
Base	RMB162.911bn	RMB26.553bn	USD9.91	USD148.61	Clears narrowly
Bull	Stronger AI transition	Higher margin	Above base	Above current price	Clears

The base valuation pass is not a full investment pass. The cushion is modest for a business with a management FAIL, moat YELLOW, product-margin opacity, founder control, VIE dependence, and a still-unproven AI return profile. The audited compounder score makes the same point from another angle: Baidu scores 36/100, with 33/80 for business quality and 3/20 for 20% return underwriting. At a 15x terminal multiple, base-case annualized price return is only about 2.6%, and even the bull case does not clear the 20% return hurdle. The synthesis passed 11/11 arithmetic checks, but Check 7 carries a caveat: the model depends heavily on Baidu General Business executing the AI mix transition profitably.

Red Team

The red team's strongest point is that Baidu may grow AI revenue while destroying the old search-ad profit pool faster than AI Cloud, applications, and Apollo prove high-return economics. The most optimistic model line is Baidu General Business base-case OI of RMB24.4 billion at a 17.7% margin, because it depends on AI Cloud Infra reaching RMB54.2 billion of revenue at a 14% operating margin. If that margin is 5% instead, base EPS likely falls below the P/E 15 hurdle. The single exit signal is two more quarters with online marketing worse than -15% YoY and Baidu General Business normalized operating margin below 12%.

Kill / Trigger Criteria

- Maintain PASS if online marketing remains down double digits while AI Cloud revenue grows without disclosed margin, utilization, backlog, retention, or cash-conversion evidence.
- Maintain PASS if Baidu General Business normalized margin fails to recover above 12% over the next two quarters.
- Maintain PASS if FY2026 free cash flow remains weak after AI capex, leases, and working-capital pressure.

- Reopen WATCH only if management begins disclosing product-level AI economics and the moat evidence moves from "revenue transition" to "return transition."
- Reopen BUY only if management/moat gates repair and price offers a larger margin of safety, preferably near or below the audited 20% return buy-price marker.

Analyst Flags

The official-source override mattered in this run: the quant reviewer found a material FMP-vs-official gap for Q2 2025 revenue, and the report uses official Baidu sources as controlling. Segment product lines inside Baidu General Business are management-account analytical lines, not audited segments. The moat appendix was drafted before the final segment peer reviews landed, so the synthesis uses the reviewed segment files as controlling where the timing differs. iQIYI product-level unit economics, Apollo revenue/profitability, AI Cloud margins, utilization, retention, backlog, and Kunlunxin economics remain insufficiently disclosed. Those gaps are not cosmetic; they are central to whether Baidu is a future compounder or just a cheap-looking transition story.

Appendix A - Company Primer

Baidu, Inc. (BIDU) - Company Primer

Output owner: Subagent A (Company Primer)

Company: Baidu, Inc.

Ticker: BIDU

Stage 0 anchor used throughout this appendix:

- Today: 2026-05-28.
- Baidu's fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026 -> TTM ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031.

Source Hierarchy And Framing

This primer uses `quant_foundation.md` as the primary source for all historical and TTM financial figures. That matters for Baidu because the quantitative foundation found a live FMP unit/currency problem in several current-period rows: some FMP quarterly statement values appeared USD-sized while labeled CNY. The controlling financial base is therefore Baidu's official Q2 2025, Q3 2025, Q4/FY 2025 and Q1 2026 releases plus the 2025 Form 20-F, as reconciled in the quantitative foundation. The data package file in the work folder was still a placeholder when this appendix was written, so this primer does not rely on it for qualitative context. Incremental company and filing context was fetched live from Baidu IR and SEC sources.

The goal here is orientation, not a second audit of the numbers. Downstream segment, moat, management and synthesis agents should use the quantitative foundation and data package as their numerical source of truth. This appendix explains what Baidu owns, how the pieces fit together, and what must become true for a Gideon-style investment case to work.

Business Overview

Baidu is best understood as a Chinese internet platform that is trying to convert a mature search-and-feed advertising franchise into a full-stack AI company. The original business was search: users come to Baidu to discover information, services, merchants, maps, knowledge pages, communities, short-form content and app-like mini experiences. Advertisers pay Baidu to reach those users through search results, feed inventory and performance marketing tools. Over time, Baidu added an app ecosystem, AI Cloud, autonomous driving, smart devices and a majority-controlled online video business through iQIYI.

Baidu's own investor overview describes the company as a leading AI company with a strong internet foundation, built around a four-layer AI stack: cloud infrastructure, an in-house deep learning framework, ERNIE foundation models, and applications. That description is important because it is also management's capital-allocation thesis. Search and feed generated the cash, data, user traffic and engineering base; AI Cloud, ERNIE, agents and Apollo are the intended next legs. The investor's job is to decide whether that is an actual compounding bridge or a long-running reinvestment sink.

The customer base splits into several groups. Consumers use Baidu App, search, feed, maps, Wenku, Drive, ERNIE products, Apollo Go and iQIYI. Advertisers and merchants buy online marketing services to reach users and convert traffic. Enterprises and public-sector customers buy AI Cloud infrastructure, GPU cloud capacity, model services, agent/application tooling, smart transportation and industry AI solutions. Automakers and mobility partners may use Apollo-related technology or robotaxi deployment partnerships. iQIYI's customers include paying members, advertisers, content distributors and licensing partners.

The purchasing motion differs by business. Online marketing is largely a platform sale: merchants and agencies allocate budgets to search and feed formats, with performance tooling and targeting layered on top. AI Cloud is more enterprise-like and often requires direct sales, implementation work, capacity commitments and integration into customer workflows. AI applications such as Wenku, Drive, Miaoda and agent products are partly consumer/prosumer subscription or usage products

and partly enterprise software. Apollo is still more development-stage: it monetizes through ride-hailing operations, partnerships, potential fleet economics and vehicle/software deployment rather than through a mature high-margin software license stream. iQIYI monetizes through subscriptions, advertising, distribution and other media-related models.

The key transition is visible in Q1 2026. Baidu disclosed that Baidu Core AI-powered Business exceeded half of Baidu General Business revenue for the first time, reaching more than RMB13.6 billion, up 49% year over year. AI Cloud Infra reached RMB8.8 billion, up 79% year over year. But traditional online marketing inside Baidu General Business was down sharply year over year, and consolidated reported TTM operating income was negative because of the Q3 2025 impairment. Baidu is not a simple "AI growth stock" layered on top of a healthy core. It is a company replacing part of its historical profit engine with businesses that are larger, more strategic, more capital intensive, and not yet proven at legacy-search margin levels.

What Baidu Owns

Baidu owns two reportable segments: Baidu General Business and iQIYI. The naming changed recently. Starting in Q4 2025, Baidu redefined Baidu Core as Baidu General Business. The quantitative foundation treats Baidu Core and Baidu General Business as the same reportable segment only where Baidu's sources explicitly support it.

Baidu General Business is the primary economic engine. It contains the mobile ecosystem, search, feed, online marketing services, AI Cloud, AI applications, intelligent driving and other growth initiatives. In the Q4/FY 2025 release, Baidu described Baidu General Business as including Baidu Core AI-powered Business, Legacy Business and Others. Legacy Business mainly consists of traditional advertising services across Search, Feed and other properties. The newer AI-powered disclosure includes AI Cloud Infra, AI Applications and AI-native Marketing Services, but those are management-account views, not official reportable segments.

iQIYI is the online video entertainment business. It produces, aggregates and distributes professional video content and other video content. Its economics are driven by membership revenue, advertising, content distribution and smaller adjacent businesses. From a Baidu shareholder's perspective, iQIYI is important because it is a separate listed company but consolidated in Baidu's segment reporting. It brings a large user entertainment platform, but it also has lower profitability, content-cost cyclicality, debt and less obvious synergy with Baidu's AI-first reinvestment case than the Baidu General Business segment.

Baidu also owns or controls strategic assets that do not map cleanly into the two reportable segments. These include ERNIE foundation models, the PaddlePaddle deep learning framework, AI Cloud infrastructure, GPU Cloud, AI application franchises such as Wenku and Drive, Apollo Go robotaxi operations, DuerOS smart assistant, internally developed AI chip capabilities, and Kunlunxin, for which Baidu announced a proposed spin-off and separate listing in January 2026. It also owns a very large cash and investment balance. The Q1 2026 balance sheet in the quantitative foundation shows company-defined total cash and investments of RMB279.3 billion, far larger than near-term reported earnings and large enough to shape capital allocation, valuation and downside protection.

Revenue Architecture

The clean reportable segment picture is simple: Baidu General Business is roughly four-fifths of revenue, iQIYI is roughly one-fifth, and eliminations are small. The messy part is that the growth and margin drivers inside Baidu General Business are changing quickly. Traditional online marketing is shrinking; AI Cloud Infra is growing fast; AI-native marketing is growing from a newer base; AI applications are still modest relative to total company revenue; and Apollo is strategically prominent but not separately disclosed as a material reportable revenue line.

The following table summarizes the FY 2025 segment architecture using the quantitative foundation.

Segment	FY 2025 revenue (RMBm)	Share of consolidated FY 2025 revenue	FY 2025 operating income (RMBm)	FY 2025 operating margin	What it contains
Baidu General Business	102,485	79.4%	-6,044	-5.9%	Search, feed, online marketing, AI Cloud, AI applications, Apollo, DuerOS and other growth initiatives
iQIYI	27,290	21.1%	229	0.8%	Online entertainment video, membership, advertising, content distribution and other media revenue
Intersegment eliminations	-696	-0.5%	-8	N/A	Revenue and cost eliminations between segments

Segment	FY 2025 revenue (RMBm)	Share of consolidated FY 2025 revenue	FY 2025 operating income (RMBm)	FY 2025 operating margin	What it contains
Consolidated Baidu	129,079	100.0%	-5,823	-4.5%	Total company

The TTM base ending March 31, 2026 looks similar by revenue mix but remains distorted by the Q3 2025 impairment.

Segment	TTM revenue (RMBm)	Share of TTM revenue	TTM operating income (RMBm)	TTM operating margin	Primer read-through
Baidu General Business	103,023	80.0%	-6,792	-6.6%	Core advertising plus fast-growing AI businesses, with impairment dragging reported OI negative
iQIYI	26,330	20.5%	-341	-1.3%	Stabilizing but not yet a robust profit contributor on a TTM basis
Intersegment eliminations	-651	-0.5%	-5	N/A	Small reconciliation item
Consolidated Baidu	128,702	100.0%	-7,138	-5.5%	Reported TTM base is not a clean earnings base because of impairment

Inside Baidu General Business, the FY 2025 and Q1 2026 disclosures point to a significant revenue-mix shift.

Business line or disclosure	FY 2025 or Q1 2026 data point	Source treatment	Interpretation
FY 2025 online marketing services	RMB67.837bn	Revenue-type disclosure in quant foundation	Mature search/feed monetization base; declining in latest quarters
FY 2025 other revenue	RMB61.242bn	Revenue-type disclosure in quant foundation	Includes cloud services and iQIYI membership services, so not a pure Baidu General Business product line
Q1 2026 Baidu General Business online marketing	RMB12.6bn	Official release highlight	Down 22% year over year; the clearest pressure point in the legacy engine
Q1 2026 Baidu General Business others	RMB13.4bn	Official release highlight	Up 42% year over year, primarily driven by AI Cloud growth
Q1 2026 Baidu Core AI-powered Business	More than RMB13.6bn	Unaudited internal management-account disclosure	Exceeded half of Baidu General Business revenue for the first time
Q1 2026 AI Cloud Infra	RMB8.8bn	Unaudited internal management-account disclosure	Up 79% year over year and the largest disclosed AI growth component
Q1 2026 AI Applications	RMB2.5bn	Unaudited internal management-account disclosure	Flat year over year; still needs clearer monetization acceleration
Q1 2026 AI-native Marketing Services	RMB2.3bn	Unaudited internal management-account disclosure	Up 36% year over year but still smaller than legacy ad revenue

Geographically, the business remains primarily China-centered even though Apollo, AI products and listings are becoming more international. Baidu has Nasdaq ADSs and Hong Kong shares; its operations, licenses, users, regulatory exposure, and cash generation are heavily tied to mainland China. Apollo Go's international activity is strategically interesting because it could extend Baidu's autonomous-driving stack outside China, but that also introduces local permitting, safety, data, partnership and geopolitical constraints.

Baidu General Business: Search, Feed And Online Marketing

The legacy profit engine is online marketing attached to Baidu's mobile ecosystem. Baidu App is the center: a search-plus-feed app with hundreds of millions of monthly active users. The 2025 Form 20-F describes Baidu App as aggregating content and services from third-party apps and websites and using AI building blocks to deliver native-app-like experiences. This matters because Baidu's open-platform pitch differs from a purely closed social platform: Baidu tries to match user intent with third-party content, services and merchants.

For advertisers, Baidu's value proposition is intent. Search queries reveal what users want; feed behavior reveals interests; Baidu's knowledge graph, natural language processing, ranking systems and ad tools help merchants convert that intent into traffic or transactions. The historical model is attractive when users begin purchase or research journeys on Baidu, advertisers view Baidu leads as high quality, and traffic acquisition costs remain manageable.

The problem is that the Chinese internet attention map has shifted. Short-video platforms, super apps, social commerce, vertical marketplaces and generative AI interfaces compete for discovery and ad budgets. Q1 2026 shows the pressure

clearly: Baidu General Business online marketing services revenue was RMB12.6 billion, down 22% year over year, and only 48% of Baidu General Business revenue. That is a major structural signal. A decade ago, a Baidu primer would have started and ended with search ads. Today, the ER2 question is whether AI-powered businesses can more than offset the decline in a once-dominant ad franchise.

AI-native marketing is one bridge. Management separately disclosed RMB2.3 billion of Q1 2026 AI-native marketing services revenue, up 36% year over year. The logic is that ERNIE and agentic ad tools can improve creative generation, targeting, campaign automation and conversion, turning Baidu's search/feed base into a better advertising product. But the base is still small relative to legacy online marketing. For a buy case, AI-native marketing must be more than a relabeling exercise; it must stabilize customer ROI and slow or reverse the decline in the broader ad pool.

AI Cloud, ERNIE And AI Applications

Baidu's AI Cloud is the largest disclosed growth vector inside Baidu General Business. It includes AI Cloud Infrastructure, which serves enterprises and the public sector with AI infrastructure and platform services, and AI Applications, which are AI-native or AI-powered offerings for specific consumer and enterprise use cases. The technical pitch is full-stack integration: AI chips or partner hardware, GPU cloud capacity, PaddlePaddle, ERNIE models, model tooling, and applications.

The bull case is that Baidu has one of China's deepest domestic AI stacks at a time when Chinese enterprises need local foundation models, local cloud capacity, data-residency comfort, regulatory alignment and practical deployment support. Baidu has invested in AI since 2010, open-sourced PaddlePaddle in 2016, launched ERNIE Bot in 2023, released ERNIE 4.5 and ERNIE X1 in 2025, open-sourced the ERNIE 4.5 series in 2025, unveiled ERNIE 5.0 in November 2025, updated ERNIE 5.0 in January 2026, and launched ERNIE 5.1 in May 2026. The company also says Baidu AI Cloud ranked as China's No. 1 AI cloud provider for a sixth consecutive year in an IDC report issued in July 2025.

The Q1 2026 data point is strong: AI Cloud Infra revenue reached RMB8.8 billion, up 79% year over year, and GPU Cloud revenue increased 184% year over year. This is the clearest evidence that Baidu is selling real AI infrastructure demand rather than only narrating an AI story. The caveat is unit economics. AI infrastructure can be capital intensive, depreciation heavy, capacity-constrained by chips, and exposed to price competition. It may not naturally earn search-ad margins. A company can be strategically right about AI demand and still disappoint shareholders if the required compute investment absorbs too much of the profit pool.

AI Applications are more mixed. Q1 2026 AI Applications revenue was RMB2.5 billion, approximately flat year over year, even as Baidu launched or upgraded products including DuMate, Miaoda, Famou Agent and GenFlow. Baidu Wenku and Baidu Drive give the company a plausible productivity-app surface, and agent tools could become high-margin software if they gain workflow lock-in. But the current revenue signal is not yet a high-growth proof point. For ER2, AI Applications should be treated as an option with product evidence, not as a proven compounding segment.

ERNIE is strategically central because it feeds all of these surfaces: search renovation, ad generation, cloud model services, consumer assistants, productivity agents, coding tools and enterprise applications. The investment case needs ERNIE to do three things at once: keep Baidu relevant as query behavior shifts from keyword search to answer engines; create differentiated cloud demand; and generate application revenue that is less capital intensive than infrastructure. If ERNIE only creates more compute cost while advertising keeps falling, the story breaks.

Apollo And Intelligent Driving

Apollo Go is Baidu's autonomous ride-hailing service and the most visible non-advertising strategic asset. Baidu says Apollo Go delivered 3.2 million fully driverless operational rides in Q1 2026, with weekly rides peaking above 350,000 in March; cumulative public rides exceeded 22 million as of April 2026. By May 2026, Baidu said Apollo Go's global footprint reached 27 cities, with more than 330 million autonomous kilometers and more than 220 million fully driverless autonomous kilometers.

Apollo matters because robotaxi is one of the few markets large enough to justify a very long reinvestment horizon. If Baidu can operate fully driverless fleets at high utilization, lower vehicle cost, low incident rates and acceptable regulatory terms, the business could become a mobility platform with network, data and operating scale advantages. The 20-F also points to Apollo's history of permits, fee-charging services and fully driverless operations in multiple Chinese cities. International expansion into the Middle East, Europe, Hong Kong and other markets adds optionality and external validation.

But Apollo should not be romanticized in the primer. It is likely capital intensive, operationally complex and regulated city by city. Fleet deployment requires vehicles, maintenance, local operating permissions, remote-assistance infrastructure, mapping, safety validation, public trust and local partnerships. The business may be strategically valuable long before it is

financially material, which creates a classic ER2 tension: long-duration optionality can be real but still too uncertain to underwrite at a required 20% return.

For the Gideon lens, Apollo is not yet the base earnings engine. It is a strategic option that could either become a large profit pool or remain an impressive technology program that consumes capital. The synthesis should ask for evidence of fleet unit economics: revenue per ride, utilization, cost per vehicle, safety driver or remote-assistance cost, depreciation, city-level contribution margin, and the capital required to scale from millions of rides to tens or hundreds of millions.

iQIYI

iQIYI is Baidu's online video entertainment business. It is a meaningful revenue contributor but not the heart of the AI thesis. Its business model includes membership services, online advertising, content distribution and other monetization models such as games and experience businesses. Members pay for access to premium content, early access, viewing features and package tiers. Advertisers buy brand and performance inventory tied to content and audience. Content distribution monetizes licensing and sub-licensing.

iQIYI's economic structure is different from search. Content businesses have large upfront or committed content costs, hit-driven demand, competition for talent and intellectual property, and more volatile operating leverage. Baidu's 2025 segment table shows iQIYI revenue of RMB27.290 billion and operating income of only RMB229 million, an operating margin of 0.8%. TTM revenue was RMB26.330 billion with a TTM operating loss of RMB341 million. It is large enough to matter for consolidated revenue but not yet a consistent profit compounder.

The strategic question is whether iQIYI is a value-enhancing media platform, a stable but low-return asset, or a distraction. It can contribute content, advertising inventory, subscriptions and user attention. It may also benefit from AI in content production, recommendation, moderation and advertising. However, its return profile is likely lower and more cyclical than the best version of Baidu's search or software-like AI application businesses. Any ER2 valuation should avoid giving iQIYI the same quality multiple as a high-ROIC platform unless it demonstrates durable profitability.

Unit Economics And Cost Structure

Baidu's unit economics are now a blend of three different models. The first is traditional online marketing: high gross-profit potential, scalable software/platform economics, but sensitive to traffic quality, user share, advertiser ROI and competition. The second is AI Cloud and infrastructure: high demand growth, but with compute, bandwidth, depreciation, data center, chip procurement and implementation costs that can suppress margins. The third is media and mobility: iQIYI content costs and Apollo fleet costs, both of which can be strategically important but less naturally asset-light.

The reported FY 2025 financials show the transition cost. Consolidated revenue fell 3% to RMB129.079 billion. Cost of revenue rose 10% to RMB72.436 billion, primarily due to Baidu Core AI-powered business costs in the official release. SG&A rose 9%. R&D fell 8% but remained large at RMB20.433 billion. Baidu recognized a RMB16.190 billion impairment of long-lived assets attributable to the Core asset group. Reported operating loss was RMB5.823 billion; excluding the impairment, operating income would have been RMB10.367 billion by simple add-back in the quantitative foundation, and Baidu's release presented ex-impairment/non-GAAP profitability measures.

That means a dollar of revenue no longer has a simple path to profit. In legacy online marketing, a dollar of revenue should produce attractive contribution margin once traffic acquisition, sales support and platform costs are covered. In AI Cloud Infra, a dollar of revenue may require GPUs, data center capacity, partner hardware, depreciation and customer support. In AI Applications, a dollar could become attractive if software scales, but it may also carry model inference costs. In Apollo, a dollar of ride revenue has vehicle, maintenance, operations, safety, insurance and regulatory costs. In iQIYI, a dollar of revenue has content amortization, bandwidth, marketing and production costs.

The ER2 case needs mix shift to improve rather than dilute unit economics. Fast AI Cloud revenue growth is not enough if every incremental RMB requires heavy compute investment at commodity-like margins. Conversely, if Baidu can use its own model stack, AI chips/partners, software layers and application surfaces to lower unit cost and capture differentiated pricing, AI Cloud could become an acceptable reinvestment engine. The key evidence will be normalized Baidu General Business operating margin after impairment, AI Cloud gross margin direction, capex intensity, operating cash flow conversion and whether AI Applications can grow faster than inference cost.

China, VIE And ADR Context

Baidu is a Cayman Islands holding company with Nasdaq ADSs and Hong Kong-listed shares. One Baidu ADS represents eight Class A ordinary shares. The company has been listed on Nasdaq since 2005 and dual-listed in Hong Kong since 2021. For U.S. investors, the security is not a direct ownership claim on operating licenses in mainland China. Like many Chinese internet companies, Baidu conducts key businesses through subsidiaries and variable interest entities because foreign ownership restrictions and licensing rules affect internet, media, mapping, online video, autonomous driving and related services.

The 2025 Form 20-F states that Baidu conducts business primarily through subsidiaries and VIEs in mainland China and lists numerous required licenses and permits, including value-added telecommunications, internet news, online audio/video, mapping, internet culture, publication, medical-related platform licenses, online taxi-hailing operation licenses, and autonomous-driving testing/demonstration/commercial-operation permits. The filing also emphasizes that interpretation and enforcement can change and that additional licenses, filings or approvals may be required.

The VIE structure is a core investment risk, not a footnote. Baidu consolidates VIEs through contractual arrangements rather than ordinary equity ownership. Those arrangements are designed to give the listed group economic exposure and control-like rights, but they depend on enforceability under Chinese law and on continued regulatory tolerance. If regulators required restructuring, limited contractual arrangements, blocked capital flows, restricted licenses or changed rules for offshore-listed companies, ADS holders could face a materially different risk/reward profile.

ADR and audit risk is lower than it was during the peak HFCAA crisis but not gone. The 20-F explains that the PCAOB removed mainland China and Hong Kong from the list of jurisdictions it could not inspect completely after its December 2022 determination, and Baidu does not expect to be identified as a Commission-Identified Issuer for FY 2025. But if PCAOB access is lost again for two consecutive years, U.S. trading prohibition risk can return. Baidu's Hong Kong listing offers an alternate trading venue, but it does not eliminate valuation, liquidity, custody or forced-selling risk for U.S.-listed ADS holders.

There is also operating regulation. Baidu's businesses touch politically and socially sensitive areas: search results, news information, online content, video, health information, AI-generated content, cloud, data security, autonomous vehicles, mapping and ride-hailing. Generative AI regulation, content controls, data localization, cybersecurity review, online advertising standards and autonomous-driving permits can all shape growth and margins. The right ER2 posture is not to dismiss China risk as uninvestable by definition, but to require a larger margin of safety and clearer evidence of owner-oriented capital allocation.

Capital Allocation And Balance Sheet

Baidu has a large financial asset base. As of March 31, 2026, the quantitative foundation shows cash and cash equivalents of RMB29.948 billion, short-term investments of RMB86.942 billion, long-term investments of RMB42.944 billion, long-term time deposits and held-to-maturity investments of RMB116.390 billion, and company-defined total cash and investments of RMB279.3 billion. Total liabilities were RMB157.218 billion and Baidu shareholders' equity was RMB268.886 billion.

This balance sheet gives Baidu strategic flexibility, but it also raises a capital discipline question. Management can fund AI Cloud infrastructure, ERNIE model development, Apollo fleets, repurchases, dividends, acquisitions and spin-offs. The hard part is sequencing those choices in a way that creates per-share value. A cash-rich company can still destroy value if it funds low-return growth indefinitely.

Recent capital allocation is more shareholder-return friendly than Baidu's historical profile. In February 2026, the board authorized a new share repurchase program of up to US$5 billion through December 31, 2028. The board also approved Baidu's first dividend policy, with the first payment potentially by year-end 2026, subject to board review and approval. In Q1 2026, Baidu returned US$172 million to shareholders through repurchases. The company also announced the proposed spin-off and separate listing of Kunlunxin, which management says could unlock shareholder value.

For ER2, the issue is whether these actions are structural or cosmetic. A real capital-allocation improvement would show up in disciplined repurchases when the stock is cheap, transparent dividend policy, monetization or listing of non-core assets where value is trapped, and evidence that AI/Apollo capex is tied to return thresholds rather than strategic aspiration alone. The large cash and investment balance provides downside support, but only if shareholders can ultimately access it through buybacks, dividends, profitable reinvestment or asset realization.

Strategic Assets And Optionality

Baidu's strategic asset base is unusually broad. Search and Baidu App provide user intent, distribution and data. ERNIE provides the model layer. PaddlePaddle provides an ecosystem and developer framework. AI Cloud provides enterprise

distribution and infrastructure monetization. Wenku, Drive, DuMate, Miaoda, Famou Agent and GenFlow provide application surfaces. Apollo Go provides autonomous-driving data, permits, fleet operations and brand leadership. Kunlunxin and AI chip capabilities could help with domestic compute independence. iQIYI provides media scale, content and subscriptions. The cash and investment portfolio provides funding capacity.

The risk is focus. A broad strategic map can become a portfolio of expensive options with no single dominant economics. The primer view should be balanced: Baidu has more real AI assets than many companies that merely rebrand around AI, but it also faces intense competition from Chinese cloud providers, model labs, consumer platforms, short-video companies, automakers, robotaxi peers and enterprise software vendors. It must win against companies with deeper cloud scale, stronger social distribution, faster app virality or more focused autonomous-driving commercialization.

The strategic value of Baidu's stack is highest if the pieces reinforce each other. Better models improve search, ads and agents; search traffic supplies data and distribution; AI Cloud monetizes models and infrastructure; applications create sticky workflows; Apollo supplies a high-profile frontier use case; chips and domestic hardware adaptation reduce cost and supply risk. The strategic value is much lower if each piece competes in isolation and requires separate heavy investment.

What Must Be True For The ER2 Case

The Baidu case is not "cheap China internet stock plus AI story." It is a transition underwriting problem. The old business is under pressure. The new businesses are growing but have different margins and capital intensity. Reported TTM operating income is negative because of impairment. The balance sheet is large, but ownership and capital-flow structures are complex. For a Gideon-style case, Baidu must prove that the next five years convert AI investment into per-share earnings power rather than merely sustaining revenue.

The minimum "must be true" list is below.

Case requirement	Why it matters	Evidence to monitor
Legacy online marketing stabilizes or declines at a manageable pace	Search/feed cash flow funds the transition; a rapid ad decline can swallow AI growth	Online marketing revenue growth, Baidu App MAU, advertiser ROI commentary, AI-native ad adoption
AI Cloud Infra grows with improving unit economics	Current growth is strong, but infrastructure can be low-margin if compute costs dominate	AI Cloud revenue, gross margin clues, capex intensity, depreciation, GPU Cloud pricing and utilization
ERNIE creates monetizable differentiation	Foundation models must defend search and create cloud/application demand	Model adoption, enterprise wins, API usage, ERNIE integration in search/ads/apps
AI Applications accelerate beyond flat growth	Applications are the path to more software-like economics	Wenku/Drive/agent revenue, paid users, enterprise deployment, inference cost per use
Apollo remains financially disciplined	Robotaxi optionality is valuable only if unit economics can scale	Rides, utilization, city-level contribution margin, vehicle cost, permits, safety record
iQIYI does not consume group value	It is a fifth of revenue but low-margin; it should not dilute consolidated returns	Membership trends, content cost discipline, operating income, debt and cash flow
Capital return becomes durable	The cash balance must matter to per-share value	Actual buybacks, dividend declaration, Kunlunxin monetization/listing progress
China/VIE/ADR risk remains investable	The structure requires a higher margin of safety	PRC AI/content/cloud/autonomous rules, CSRC filings, PCAOB access, Hong Kong liquidity

The base ER2 burden is high. Baidu must show that AI-powered revenue can replace legacy advertising profit, not just legacy advertising revenue. It must do so while maintaining balance-sheet strength, returning capital when appropriate, and avoiding a capital sink in infrastructure and robotaxi. If that happens, the market may be undervaluing an AI platform with a large net asset base. If it does not happen, Baidu is a mature ad platform funding multiple expensive transitions in a jurisdiction that deserves a discount.

The primer conclusion is therefore cautious. Baidu owns real assets: a scaled search platform, a large user base, a domestic AI stack, fast-growing AI Cloud Infra, ERNIE models, Apollo Go, iQIYI and a substantial cash/investment position. It also owns real problems: online marketing decline, reported TTM operating loss, uncertain AI Cloud margins, low iQIYI profitability, long-duration Apollo economics and China/VIE/ADR risk. The rest of the ER2 work should not ask whether Baidu is interesting. It is. The correct question is whether the five-year earnings build can clear the required P/E <= 15 test without heroic assumptions about AI monetization, robotaxi scaling or capital returns.

Source Notes

Primary quantitative source: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Baidu\quant_foundation.md`.

Live official sources reviewed: Baidu Q1 2026 results release, Baidu Q4/FY 2025 results release, Baidu investor company overview, Baidu 2025 Form 20-F filed March 17, 2026, and Baidu IR SEC filings index.

Key URLs: https://ir.baidu.com/news-releases/news-release-details/baidu-announces-first-quarter-2026-results; https://ir.baidu.com/news-releases/news-release-details/baidu-announces-fourth-quarter-and-fiscal-year-2025-results/; https://baidu.gcs-web.com/company-overview; https://www.sec.gov/Archives/edgar/data/1329099/000119312526109289/d38065d20f.htm; https://ir.baidu.com/financial-information/sec-filings?field_nir_sec_form_group_target_id%5B%5D=471.

Appendix M - Management Assessment

Baidu, Inc. (BIDU) - Management Assessment

Output owner: Subagent M (Management Assessment)

Company: Baidu, Inc.

Ticker: BIDU

Output path: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Baidu\appendix_management.md`

Stage 0 anchor: Today is 2026-05-28. Baidu's fiscal year ends December 31. The most recently reported quarter is Q1 2026, period ended March 31, 2026. The TTM anchor is Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, ending March 31, 2026. The forward horizon is March 31, 2031.

Source Notes

The data package is the controlling source for financial history, segment history, capital allocation rows, and management commentary. Incremental governance and leadership evidence was checked against Baidu's 2025 Form 20-F and the live FMP Q1 2026 transcript endpoint. Amounts are RMB billions unless otherwise stated. The 2025 Form 20-F is the closest foreign-issuer equivalent to a proxy statement; Baidu does not file a U.S. DEF 14A proxy in the same way as a domestic issuer.

Source	Use in this appendix
`data_package.md`	Controlling source for capex, R&D, buybacks, dividend policy, impairment, recent corporate actions, and transcript summaries
`quant_foundation.md`	Controlling TTM, segment, balance sheet, share count, and impairment base
Baidu 2025 Form 20-F	Directors, executive officers, compensation, share ownership, VIE structure, governance, related-party balances, cybersecurity governance
FMP transcripts, Q2 2024 through Q1 2026	Eight-quarter management Q&A lens on AI cloud, capex, margins, Apollo Go, ERNIE, shareholder return, competition, and disclosure cadence

1. Who Is Running The Company

Baidu remains a founder-led company. Robin Yanhong Li is co-founder, chairman, and chief executive officer. The 2025 Form 20-F states that he has served as chairman since inception in January 2000 and CEO since February 2004. That makes him the clear owner of the current strategic architecture: search and feed, AI Cloud, ERNIE, Apollo Go, AI applications, the Kunlunxin chip effort, iQIYI consolidation, and the company's capital allocation style. This is not a "new CEO gets benefit of the doubt" situation. Baidu's strengths and weaknesses are the output of a long-tenured founder's strategy.

The CFO role recently changed. Haijian He has served as CFO since July 2025. He joined from Kingsoft Cloud, where he had been executive director and CFO since January 2020, and previously worked in TMT and M&A investment banking at Goldman Sachs, Bank of America Merrill Lynch, and Citigroup. He is also chairman of iQIYI's board. That resume is unusually relevant for Baidu's current moment: AI cloud, capital markets, leases and borrowings for infrastructure, iQIYI oversight, and possible value-unlocking actions such as the proposed Kunlunxin spin-off. But his in-seat track record at Baidu is short. The better disclosure taxonomy, first dividend policy, and new buyback authorization all arrived after or around his arrival, so the direction is constructive, but not yet proven over a cycle.

The named senior operating leaders on the Q1 2026 call included Julius Rong Luo, EVP in charge of Baidu Mobile Ecosystem Group, and Dou Shen, EVP in charge of Baidu AI Cloud Group and AI Glasses. Robin Li directly handled ERNIE, AI applications, AI Search, and Apollo Go strategy on the call; Henry He handled financials, capex, margins, and capital allocation; Dou Shen handled AI chip and cloud infrastructure detail. The operating pattern is founder-led with domain executives supplying the technical detail.

The board has five directors: Robin Li plus four independent directors, Yuanqing Yang, Jixun Foo, Sandy Ran Xu, and Xiaodan Liu. The independent directors are credible on paper: Yang is Lenovo's chairman and CEO; Foo is a senior venture investor; Xu is JD.com's CEO and former CFO; Liu is a capital markets professional and chair of the audit committee. The issue is not a lack of nominal independence. The issue is power. Baidu has a weighted voting rights structure. Each Class A

ordinary share has one vote, each Class B ordinary share has 10 votes, and Robin Li held 68.1 million Class A shares and 439.2 million Class B shares as of January 31, 2026, representing about 59.9% of voting rights. That creates founder control. It can support long-term investment, but it materially limits minority shareholder influence.

Role	Person	Evidence and assessment
CEO and chairman	Robin Yanhong Li	Founder, chairman since 2000, CEO since 2004; directly owns the AI pivot and capital allocation culture
CFO	Haijian He	CFO since July 2025; relevant cloud and capital-markets background, but short Baidu tenure
Mobile ecosystem	Julius Rong Luo	Handles AI Search and mobile ecosystem questions; relevant to legacy ad transition
AI cloud / AI hardware	Dou Shen	Handles AI cloud, Kunlunxin, and domestic AI chip execution detail
Board check	Four independent directors	Strong resumes, but founder's 59.9% voting power is the real control fact

2. Tenure And Track Record

Robin Li's tenure is long enough to give him full credit and full blame. Three strategic decisions dominate the management record.

First, Baidu kept investing in search, AI, and cloud infrastructure rather than harvesting search as a declining cash cow. That choice now has real evidence. The data package shows that in Q1 2026 Baidu General Business revenue was RMB26.0 billion, up 2% year over year, while online marketing fell 22% and "Other" revenue rose 42%, mainly from AI cloud. Management-account AI-powered business reached RMB13.6 billion in Q1 2026, up 49%, and became 52% of Baidu General Business revenue. That is a genuine pivot in revenue mix, not a press-release slogan.

Second, management bet heavily on AI infrastructure and models. R&D has stayed large at 15.8% to 20.0% of revenue over FY2021-FY2025, and Q4 2025 commentary in the data package says Baidu has invested more than RMB100 billion in AI since ERNIE launched in March 2023. Capex rose to RMB13.417 billion in FY2025, or 10.4% of revenue. Baidu also has capital commitments for network infrastructure and cloud computing data centers. The strategy and spending pattern are coherent: management says AI is the long-term opportunity and is funding it.

Third, Baidu has tried to build option value in autonomous driving. Apollo Go exceeded 22 million cumulative rides by April 2026, reported 3.2 million fully driverless rides in Q1 2026, and has international partnerships with Uber and Lyft. Management says Apollo Go has reached unit-economics break-even in its largest China operating city. That is a meaningful operational achievement. It is not yet a financial proof point because Apollo Go revenue is not separately disclosed and Baidu General Business still reports at a broad segment level.

The failures are equally important. Baidu's long-tenured leadership has not produced a clean compounder record. Revenue was RMB124.493 billion in FY2021, RMB134.598 billion in FY2023, and RMB129.079 billion in FY2025. Operating income was RMB21.856 billion in FY2023, RMB21.270 billion in FY2024, and RMB-5.823 billion in FY2025 after a RMB16.190 billion long-lived asset impairment. Free cash flow was negative RMB16.430 billion in FY2025. Even acknowledging the impairment and the strategic AI investment cycle, this is not a five-year record of compounding per-share earnings at high returns.

Management deserves credit for not hiding the transition. The Q3 2025 impairment was disclosed, and the company added a clearer AI-native investor view in Q4 2025 and Q1 2026. But the capital allocation record still has a scar: Baidu spent aggressively through a period when legacy advertising deteriorated, iQIYI remained pressured, and reported ROIC turned negative in FY2025.

Decision	Evidence	Management assessment
AI pivot from legacy search ads	Q1 2026 AI-powered business RMB13.6bn, 52% of BGB revenue	Real execution progress; strongest management evidence
Heavy AI infrastructure and model investment	FY2025 capex 10.4% of revenue; R&D 15.8%; RMB100bn-plus AI investment since ERNIE launch per D package	Strategically coherent but capital intensive; returns not yet proven
Apollo Go buildout	More than 22m cumulative rides by April 2026; overseas partnerships	Operationally impressive but still not financially disclosed enough
iQIYI and legacy ad drag	iQIYI revenue down, BGB online marketing down 22% in Q1 2026	Management has not fully offset old-business erosion

Decision	Evidence	Management assessment
Asset impairment	Q3 2025 RMB16.190bn long-lived asset impairment	Serious capital discipline flag

3. Capital Allocation Behavior

The last five years show a company with large resources and mixed capital discipline. The balance sheet is strong: Q1 2026 company-defined total cash and investments were RMB279.3 billion versus D-calculated total debt of RMB86.8 billion. Liquidity is not the problem. The problem is whether management can convert that liquidity and AI spending into high-return, per-share compounding.

Capex and R&D are consistent with the stated AI strategy. FY2025 capex increased to RMB13.417 billion, and management told investors in Q1 2026 that Baidu will maintain strategic investment intensity in AI while using operating cash flow, operating leases, financial leases, and low-cost borrowings to support investment without draining the cash position. That answer was direct. It also creates a testable burden: if AI infrastructure is funded partly off balance sheet through leases and borrowings, return on invested capital should include those commitments, not just reported capex.

Shareholder returns improved recently. Baidu announced a new US$5.0 billion repurchase program in Q4 2025 / Q1 2026, effective until December 31, 2028, and adopted its first dividend policy. Q1 2026 repurchases were US$172 million. This is a positive change from a minority-shareholder perspective. However, buyback execution has not yet demonstrated price sensitivity. The 20-F also warns that repurchase programs are not obligations, may be suspended or terminated, and may not enhance long-term value.

M&A and investments are less compelling. FY2021 acquisition cash flow was RMB12.282 billion paid. FY2024 shows an FMP sign caveat with RMB8.438 billion received, and FY2025 shows no acquisition cash flow in the data package. More importantly, Baidu has a history of public and private investments that create earnings volatility and impairment risk. The 2025 impairment and recurring investment fair-value risk in the 20-F weaken the case that management has a demonstrated high-return reinvestment engine.

Year	Capex / revenue	R&D / revenue	Buybacks	FCF	Management read
FY2021	9.0%	20.0%	7.581	8.882	Heavy investment with positive cash generation
FY2022	6.8%	18.9%	1.925	17.777	Lower buyback, good cash conversion
FY2023	8.4%	18.0%	4.764	25.320	Best recent capital conversion year
FY2024	6.1%	16.6%	6.324	13.100	Still cash generative before AI capex step-up
FY2025	10.4%	15.8%	5.385	-16.430	AI capex and impairment make return discipline unproven

4. Compensation Alignment

Compensation disclosure is a weakness. Baidu's 2025 Form 20-F discloses aggregate executive officer cash compensation of RMB12 million and 3,216,344 restricted Class A ordinary shares granted to executive officers in office as of the report date, plus non-executive director cash compensation of about RMB1.5 million and 27,224 restricted Class A ordinary shares. It also discloses the 2008, 2018, and 2023 share incentive plans and the aggregate outstanding awards. It does not provide a U.S.-style compensation discussion that clearly links named executive pay to ROIC, free cash flow, multi-year EPS growth, or per-share value creation.

Robin Li's ownership is real, but it is control ownership as much as economic alignment. He held 68.1 million Class A shares and 439.2 million Class B shares, creating about 59.9% voting power. That gives him deep company-specific exposure and long-term incentives, but also reduces the disciplining force of outside shareholders. A founder with voting control can fund a long AI transition; he can also pursue strategies whose payoff horizon or risk profile minority shareholders cannot veto.

Stock-based compensation is not obviously abusive, but dilution discipline is hard to underwrite from the available disclosure. Diluted ADS count was 351.8 million in FY2021, 354.6 million in FY2023, 349.8 million in FY2024, and 343.0 million in FY2025, helped by buybacks. That suggests repurchases have more than offset some dilution recently. But incentive design remains opaque. A Gideon-quality compensation system would explicitly tie long-term awards to returns on capital, durable free cash flow, and per-share compounding through the AI investment cycle. Baidu's current disclosure does not clear that

bar.

5. Disclosure Quality And Candor

Baidu's disclosure quality has improved, but it is still below what an outside minority investor would want for a 20-year compounder. The eight-quarter transcript set from Q2 2024 through Q1 2026 shows recurring analyst pressure on AI cloud growth, AI search monetization, margins, competition, Apollo Go, and capex. Management usually answers the strategic direction directly and increasingly supplies operating metrics, but it still withholds the product-level economics needed to underwrite returns on capital. The strongest positive is the new AI-native investor view. Management now breaks out Baidu Core AI-powered Business, AI Cloud Infra, AI Applications, AI-native Marketing Services, Legacy Business, and GPU Cloud growth rates. That gives investors a real way to evaluate whether AI is replacing legacy online marketing.

The Q1 2026 call was reasonably direct on load-bearing questions. On compute capacity and AI Cloud Infra margins, management explained demand drivers, GPU Cloud mix, full-stack optimization, Kunlunxin, server utilization, and customer mix. On capex, Henry He directly said the company intends to maintain strategic AI investment intensity while balancing shareholder returns and using operating cash flow, leases, borrowings, and cash. On Apollo Go, Robin Li stated that domestic scale is ahead of overseas operations and that the ecosystem role is still early to define. That last point is candid: management did not pretend the robotaxi business model is settled.

The negatives are the usual Baidu negatives. Product-level margins are not disclosed. AI Cloud Infra margins are not separately disclosed. Apollo Go revenue is not separately disclosed. Backlog, retention, and customer concentration for AI cloud are not disclosed. iQIYI is reported, but its strategic role inside the consolidated group remains a minority-shareholder irritant. The new AI taxonomy is helpful, but it is management-account disclosure, not audited segment reporting. The reportable segments remain Baidu General Business and iQIYI, which makes it difficult to tie AI claims directly to segment operating income.

Language quality is mixed. Management uses bold strategic phrases such as AI-first, full-stack AI, and application-driven AI. It also gives numbers where it wants investors to notice momentum: AI-powered business revenue, AI Cloud Infra growth, GPU Cloud growth, AI-native marketing growth, Apollo ride counts. But when the issue is profitability by product, capital intensity, or exact Apollo monetization, the answers remain conceptual.

6. Strategic Coherence

Strategic coherence is Baidu management's strongest point. The company is not drifting among unrelated initiatives. The core argument is that Baidu's historical search, data, AI research, cloud, chip, and autonomous driving assets can be recombined into an AI-first platform. Robin Li's Q1 2026 framing was that AI has become Baidu's primary growth driver. In Q4 2025 he emphasized that applications matter more than models. That is coherent with the current product focus: AI Search, digital humans, Miaoda, Famou Agent, AI Cloud Infra, Kunlunxin, and Apollo Go.

The investment pattern matches the story. R&D remains high. Capex is rising. The company is keeping ERNIE proprietary enough to power applications while also supporting a broader model library in cloud. It is spinning off or preparing a separate listing for Kunlunxin, which may both fund chip development and clarify value. It is pursuing international Apollo partnerships rather than trying to own every overseas distribution layer on day one. This is not random empire building.

The risk is that the coherent strategy may still not be a high-return strategy. AI infrastructure can be capital intensive and competitive. China's model and cloud markets are crowded. Legacy search monetization is falling while AI Search changes ad load and user experience. Apollo Go has strong operational metrics but uncertain consolidated economics. Baidu can be strategically right about AI and still fail the Gideon management gate if returns accrue to customers, employees, suppliers, regulators, or controlled subsidiaries rather than ADS holders.

7. Governance Flags

Governance is the main reason this management gate fails rather than lands at Yellow. Baidu has a dual-class structure with Robin Li controlling about 59.9% of voting rights as of January 31, 2026. The board has credible independent directors, but minority shareholders cannot rely on shareholder voting power to discipline strategy, related-party matters, or board composition in the ordinary course.

The VIE structure is also material. The 2025 Form 20-F states that Baidu operates restricted businesses in mainland China through variable interest entities and related contractual arrangements. It further states that Baidu derived 45%, 44%, and 50% of external revenue from VIEs in 2023, 2024, and 2025, respectively. Beijing Baidu Netcom is 99.5% owned by Robin Li

and 0.5% owned by employee Shanshan Cui. Baidu says the arrangements assign economic benefits and voting rights to the listed-company structure, but the company also discloses that the listed company does not have equity ownership in the VIEs and could be limited in enforcing those arrangements if nominee shareholders or VIEs fail to perform.

Related-party balances exist but do not look thesis-breaking by size. The 20-F shows current amounts due from Related Party B of RMB388 million and from other related parties of RMB373 million at year-end 2025, plus ordinary-course explanations. These are not large relative to Baidu's asset base, but they add to the overall governance complexity.

I did not identify a current material weakness in internal control from the sources reviewed. Baidu's cybersecurity governance disclosure says it had not experienced material cybersecurity incidents as of the annual report date. The bigger issue is structural, not an identified control failure: founder voting control, VIE revenue dependence, foreign issuer compensation opacity, and product-margin opacity.

Governance item	Evidence	Gate impact
Dual-class voting	Robin Li about 59.9% voting rights	Material minority-shareholder risk
VIE revenue dependence	50% of 2025 external revenue from VIEs	Structural enforceability and regulatory risk
VIE nominee ownership	Baidu Netcom 99.5% owned by Robin Li, 0.5% by employee	Concentrates operating-entity control complexity
Related-party balances	RMB388m due from Related Party B; RMB373m from other related parties	Not huge, but adds opacity
Internal controls	No material weakness identified in reviewed sources	Not a current red flag

8. Peer Comparison

Against Alibaba, Tencent, and JD.com, Baidu's management ranks as strategically bold but not best-in-class on minority-shareholder alignment or per-dollar capital allocation. Tencent has historically shown stronger capital allocation discipline through portfolio management, buybacks, dividends, and high-return social and gaming assets. Alibaba has its own governance and strategic reset issues, but it provides more granular commerce and cloud disclosure and has moved aggressively on shareholder returns. JD.com is more operationally focused and lower-margin, but Sandy Xu's own presence on Baidu's board is a reminder that disciplined retail execution and direct cash conversion are a different management profile from Baidu's long-horizon AI optionality.

Robin Li deserves credit for keeping Baidu technically relevant when the old search-ad business could have declined into irrelevance. Baidu is one of the few Chinese internet companies with credible full-stack AI assets across model, cloud, chip, search, and autonomous driving. But peer comparison for a Gideon lens is not about technical ambition alone. It is about whether an outside shareholder can follow the team for a decade and expect disciplined, transparent per-share compounding. On that test, Baidu ranks below Tencent and below the ideal compounder bar. It may rank above companies that are merely harvesting old assets without reinvestment, but that is not enough.

Peer	Relative management strength	Relative Baidu weakness
Tencent	Better long-term capital allocation and cash compounding	Baidu has weaker historical ROIC and more concentrated AI reinvestment risk
Alibaba	Larger capital return program and more business-line scale	Baidu has more founder control and less product-margin transparency
JD.com	Stronger operating cadence and retail execution culture	Baidu has more strategic optionality but less near-term cash conversion clarity

9. Management Gate Verdict

Management gate: FAIL.

This is not a fraud call, and it is not a claim that Robin Li is a poor operator. The opposite is partly true: Baidu's AI pivot is strategically coherent, the latest AI revenue mix shift is real, Apollo Go has genuine operational scale, and the new CFO has improved capital-return and disclosure direction. The fail is specific to the Gideon compounder bar. Baidu does not yet show a proven five-year record of high-return capital allocation, candid product-level economics, ROIC-linked incentives, and minority-shareholder protection strong enough to follow this team for a decade without a control discount.

The hard blockers are founder voting control at roughly 59.9%, VIE structures contributing about half of external revenue, an opaque foreign-issuer compensation framework, FY2025 negative FCF and impairment-driven reported operating loss, and

insufficient proof that AI infrastructure and Apollo Go investments can earn high returns on the capital now being committed. The recent buyback, first dividend policy, Kunlunxin spin-off plan, and AI-native disclosure are all positive. They are not enough to convert the record into PASS or YELLOW today.

The monitoring conditions that would make a future upgrade possible are concrete. First, Baidu needs two to four quarters of clean AI-powered revenue growth with expanding Baidu General Business margins and positive consolidated free cash flow, not just revenue mix progress. Second, management needs to disclose enough product economics for AI Cloud Infra, AI Applications, and Apollo Go to let investors judge return on capital rather than infer it from narrative. Third, shareholder returns must become demonstrably price-sensitive and per-share accretive while AI capex remains disciplined. Fourth, compensation disclosure should show a clearer link to multi-year ROIC, FCF, and per-share value creation. Until then, management does not clear the Gideon compounder gate.

Appendix W - Moat and 2046 Durability

Baidu, Inc. - Moat and 2046 Durability

Source Scope And Anchor

Today is 2026-05-28. Baidu's fiscal year ends December 31. The most recently reported quarter is Q1 2026, period ended March 31, 2026. The TTM anchor is Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, which produces TTM ending March 31, 2026. The forward ER2 horizon is TTM + 5 calendar years, or March 31, 2031. This appendix uses `data_package.md` and `quant_foundation.md` as the controlling sources for historical figures, segment taxonomy, and management commentary. The segment appendices present in the work folder at the time of this pass were stubs rather than usable segment moat reports, so this analysis integrates from the verified data package and quantitative foundation instead of inventing segment-review support.

Baidu's moat question is not whether the company owns valuable assets. It does. The question is whether those assets still form a durable, high-return profit pool after search monetization migrates toward AI answers, enterprise AI infrastructure absorbs more capital, and China internet competition keeps shifting user attention toward short video, social commerce, super apps, vertical marketplaces, and AI-native agents. The resulting verdict is deliberately strict: Baidu has real moat fragments, especially in Chinese search intent, AI engineering depth, regulatory/localization fit, and Apollo operational data, but the blend is not yet a clean Gideon-style 20-year compounder moat.

1. Moat Taxonomy Applied

Network effects. Baidu has partial network effects in search and AI systems, but they are weaker than the classic global search flywheel once was. More searches improve ranking, knowledge graphs, ad targeting, and AI search feedback; more advertisers improve monetization depth; more developers and enterprises on PaddlePaddle, ERNIE, and Baidu AI Cloud can improve tooling and deployment relevance. Apollo Go also has a local data network effect: more autonomous kilometers and more driverless rides improve safety validation, operational playbooks, mapping, and regulatory comfort. The limitation is that Baidu's user-side network effect is no longer exclusive. Chinese consumers often begin discovery on Douyin, Kuaishou, Xiaohongshu, WeChat, Taobao, JD, Meituan, vertical apps, and emerging AI assistants. If the user journey starts elsewhere, Baidu's historic query-data flywheel weakens.

Switching costs. Switching costs are moderate in enterprise AI Cloud and low to moderate in advertising. Enterprise customers that integrate Baidu GPU Cloud, ERNIE models, PaddlePaddle pipelines, application tooling, data governance, and local support into production workflows face migration friction. The friction is strongest when Baidu is embedded in a regulated or specialized deployment such as public-sector AI, financial services, utilities, automotive, or smart transportation. Advertiser switching costs are weaker: performance budgets can move quickly if ROI deteriorates, even if agencies and bidding tools create some inertia. Consumer switching costs in search are low; users can type questions into another app immediately. iQIYI switching costs are also low because video consumers churn when content slates disappoint.

Scale economies. Scale is Baidu's clearest moat source, but it is changing shape. Search and online marketing scale historically produced high fixed-cost absorption across traffic, ad systems, data centers, ranking, and sales. Today, AI Cloud and GPU Cloud scale can also matter because utilization, procurement, inference optimization, model serving, and data center operations improve with volume. Apollo Go scale matters city by city, because fleet utilization, maintenance, remote assistance, safety operations, and regulatory learning curves should improve as rides rise. The danger is that AI scale can become capital-intensity rather than margin. QF shows TTM reported operating income of RMB -7.138bn, or RMB9.052bn ex the Q3 2025 impairment. That is not yet proof that new AI scale produces attractive steady-state margins.

Distribution. Distribution is real and strategically important. Baidu App, search, feed, maps, Wenku, Drive, ERNIE surfaces, AI Cloud sales channels, and Apollo partnerships provide ways to place AI products in front of users and enterprises without starting from zero. Distribution is the best defense against pure model commoditization: a model with a route to traffic, merchants, enterprise customers, and workflows can monetize better than a model that only wins benchmarks. The weakness is attention-share competition. Baidu still has distribution, but it no longer owns the single dominant mobile discovery surface in China.

Data. Baidu owns valuable search-intent, language, map, knowledge, advertising, cloud workload, and autonomous-driving data. Data is most moat-like when it is proprietary, continuously refreshed, tied to monetization, and difficult for rivals to replicate. Search intent and Apollo driverless miles satisfy parts of that standard. Generic web text and model training data do

not; large model capabilities can diffuse quickly, especially when model weights, methods, and open-source alternatives improve. Data gives Baidu an edge, but only if paired with product distribution and monetization.

Brand and trust. Baidu's brand is powerful but mixed. In search, Baidu remains a default Chinese internet name, which helps advertisers and users. In enterprise AI, the brand carries credibility as an early AI investor with a domestic stack. In Apollo, operational safety and public/regulatory trust can become a moat if Baidu maintains a strong safety record. In consumer video, iQIYI has recognizable brand value but not enough to escape content-cycle economics. Brand is therefore useful, not decisive.

Regulation and localization. Regulation cuts both ways. Baidu benefits from being a domestic Chinese AI, cloud, search, content, mapping, and autonomous-driving operator that understands local compliance, content controls, data rules, and permitting. This can disadvantage foreign foundation-model and cloud competitors. But regulation is not a private license. Rules governing generative AI, online advertising, content, health information, data security, and autonomous driving can constrain Baidu's monetization, raise costs, or favor politically aligned competitors. Regulatory fit is an entry barrier, not a shareholder guarantee.

IP, patents, and technical capability. Baidu has deep technical assets in ERNIE, PaddlePaddle, AI Cloud, AI search, autonomous driving, and potentially Kunlunxin. The moat is stronger as a system than as isolated IP. Foundation-model IP alone is unlikely to be a 20-year moat because models commoditize and leaderboards turn over. Technical capability matters most when it lowers inference cost, improves search/ad conversion, locks enterprise deployments, or lets Apollo operate safely at lower unit cost than peers.

2. Per-Segment Moat

Baidu General Business - search, feed, and online marketing. The moat is the combination of user intent, advertiser relationships, data, ad tooling, brand, and distribution across Baidu App and search/feed properties. It remains economically meaningful, but the latest evidence is negative: Q1 2026 Baidu General Business online marketing revenue was RMB12.6bn, down 22% year over year, while the legacy business was disclosed at RMB10.2bn, down 29%. A 5-year moat exists if AI search and AI-native marketing stabilize advertiser ROI; a 10-year moat is plausible but contested; a 20-year moat in old-style keyword search is not credible. The earliest break signal is continued online marketing decline above 15%-20% annually while AI-native marketing fails to offset the fall.

Baidu General Business - AI Cloud Infra, ERNIE, AI applications, and agents. The moat is a local full-stack AI platform: GPU Cloud, cloud infrastructure, PaddlePaddle, ERNIE, application tooling, enterprise deployments, and regulatory/localization fit. Q1 2026 AI Cloud Infra revenue was RMB8.8bn, up 79% year over year; GPU Cloud was up 184%; Baidu Core AI-powered Business exceeded half of BGB revenue. This is the strongest growth evidence in the company. The durability question is economics. AI Cloud can be competed down by Alibaba Cloud, Tencent Cloud, Huawei Cloud, state-linked cloud/infrastructure providers, open-source model stacks, and specialized model labs. The 5-year moat is real if customers adopt Baidu as a production AI platform. The 10-year moat depends on switching costs and unit economics. The 20-year moat is uncertain unless AI applications and enterprise workflows become more software-like than compute resale.

Baidu General Business - apps and agents. The moat is distribution into existing Baidu surfaces and documents/workflow products such as Wenku, Drive, Miaoda, Famou Agent, GenFlow, digital humans, and AI marketing tools. This is a promising bridge from model capability to high-margin application revenue. It is not yet proven. Q1 2026 AI Applications revenue was RMB2.5bn and approximately flat year over year, despite many launches. Apps and agents have a 5-year option value, but current evidence does not support a 10- or 20-year moat without stronger retention, paid-user, enterprise-seat, or workflow-lock-in disclosures. The break signal is flat or declining AI application revenue while inference cost continues rising.

Baidu General Business - Apollo Go. Apollo's moat is operational autonomy at scale: driverless miles, safety data, permits, fleet operations, mapping, vehicle cost learning, and city-by-city regulatory trust. Baidu reported more than 22m cumulative Apollo Go rides by April 2026, Q1 2026 rides of 3.2m, and management said Apollo Go reached unit-economics break-even in its largest operational city in China. International partnerships with Uber in Dubai and Lyft in Europe add validation. Apollo has one of Baidu's best 20-year strategic options, but it is not yet a disclosed profit pool. The break signal is inability to show repeatable city-level contribution margin, utilization, safety, and regulatory expansion beyond a few showcase cities.

iQIYI. iQIYI's moat is content brand, membership scale, recommendation data, and advertising inventory. It is the weakest moat in the group. FY2025 iQIYI revenue was RMB27.290bn, operating income was only RMB0.229bn, and QF's TTM view showed RMB26.330bn revenue with a RMB0.341bn operating loss. Content businesses can create franchises, but they are hit-driven, costly, competitive, and low switching-cost. A 5-year survivability case exists; a 10-year high-return moat is weak; a

20-year Gideon moat is absent unless iQIYI proves durable margin expansion.

The blended company moat is weaker than the strongest segment suggests. Baidu General Business is about 80% of FY2025 revenue and contains the best assets, but even that segment mixes a declining legacy ad pool, a fast-growing but capital-intensive AI cloud business, unproven AI applications, and Apollo optionality. iQIYI is roughly one-fifth of revenue and currently dilutes blended quality. Investors should not underwrite Baidu as if all revenue has the moat characteristics of the best AI-stack assets.

3. Margin Persistence Evidence

The margin record supports caution. Consolidated operating margin was 8.4% in FY2021, 12.9% in FY2022, 16.2% in FY2023, 16.0% in FY2024, and -4.5% in FY2025. QF's TTM ending March 31, 2026 showed reported operating income of RMB -7.138bn on revenue of RMB128.702bn, but ex the Q3 2025 RMB16.190bn impairment, TTM operating income would be RMB9.052bn. This means normalized profitability exists, but the trend is not a clean moat signal. A durable platform moat should show resilience under competitive pressure; Baidu instead shows a major mix transition, legacy ad decline, and impairment-driven operating loss.

Segment history is similarly mixed. Baidu General Business operating margin was 18.2% in FY2023, 18.6% in FY2024, and -5.9% in FY2025 after the impairment. iQIYI operating margin fell from 9.4% in FY2023 to 6.2% in FY2024 and 0.8% in FY2025; QF's TTM figure was negative. The company can argue that Q3 2025 was a low point and that GPU Cloud has better margin profiles, but hard segment-level AI Cloud margin disclosure is missing. The observable margin persistence is therefore historical in the old business, not yet proven in the new one.

Metric	FY2023	FY2024	FY2025	TTM to Q1 2026	Moat read-through
Consolidated operating margin	16.2%	16.0%	-4.5%	-5.5% reported	Transition pressure, not clean persistence
Consolidated ex-impairment OI	N/A	N/A	RMB10.367bn	RMB9.052bn	Profitability survives adjustment, but lower than old platform quality
Baidu General Business operating margin	18.2%	18.6%	-5.9%	-6.6% reported	Legacy moat interrupted by impairment and AI transition
iQIYI operating margin	9.4%	6.2%	0.8%	-1.3%	Weak and deteriorating

4. AI Disruption Stress Test

Search and online marketing are the most exposed to AI disruption because the legacy product is partly a workflow: user asks, engine retrieves, ads monetize the journey. A foundation model or agent with enough distribution can answer directly, complete tasks, or route commerce without sending traffic through traditional search results. Baidu is attacking this risk by transforming search into AI-generated, multimodal, task-completion experiences and by selling AI-native marketing tools. That is the right defense, but it cannibalizes the old ad format before the new monetization is fully proven.

AI Cloud is platform-adjacent rather than purely disrupted. AI increases demand for compute, model serving, data infrastructure, and enterprise deployment. The risk is commoditization, not disappearance. If GPU Cloud becomes undifferentiated capacity priced by large cloud peers, Baidu's growth may be real but low-return. If ERNIE, PaddlePaddle, local compliance, application templates, and enterprise support make workloads sticky, AI Cloud becomes a moat extension. The data package supports strong growth but does not yet prove pricing power or margin durability.

Apps and agents are both opportunity and threat. If Baidu owns the agent surfaces, it can monetize productivity, advertising outcomes, enterprise workflows, and subscriptions. If users and enterprises prefer agents distributed by Tencent, Alibaba, ByteDance, Huawei, Xiaomi, vertical SaaS vendors, or open-source ecosystems, Baidu's model layer may be bypassed. AI Applications were flat year over year in Q1 2026, so the burden of proof remains high.

Apollo is the most protected from generic AI disruption because it is chokepoint economics: safety data, vehicles, mapping, local operating permits, city operations, public trust, and physical fleet utilization. Better AI helps all robotaxi players, but it does not instantly grant permits, miles, vehicles, or city-level operating experience. iQIYI is exposed because AI can reduce content production costs for everyone and may increase content supply, weakening differentiation unless the platform owns must-watch franchises.

The segment most exposed to AI disruption is legacy online marketing. The most protected is Apollo Go, although Apollo's protection is regulatory and operational rather than currently financial.

5. The 2046 Test

Twenty years from today is 2046-05-28. A credible 2046 Baidu still sells three things: AI-mediated intent and commerce services to merchants; local AI cloud, model, and workflow infrastructure to Chinese enterprises and public-sector customers; and autonomous mobility services or autonomy technology in approved cities. The old search results page is no longer the center of the company. Instead, Baidu is a Chinese AI operating layer: consumers ask agents to solve tasks; merchants pay for qualified outcomes; enterprises run domain workloads on Baidu AI Cloud and ERNIE-derived models; developers use PaddlePaddle and Baidu tooling; Apollo fleets operate in selected geographies where Baidu has permits, safety history, and partner distribution. iQIYI may still exist, but in a base 2046 description it is a smaller or more disciplined media asset, not the valuation driver.

That 2046 business can still make money if the moat is the integrated stack: domestic AI infrastructure, regulated local trust, search-intent data, enterprise workflow embedding, application distribution, and Apollo operating data. Directionally, operating margin should be lower than the best historical search-ad era but higher than FY2025's transition trough. The plausible 2046 margin profile is a blended mid-teens operating margin if AI applications and AI-native marketing scale enough to offset lower cloud and mobility margins. A high-20s margin 2046 story would require heroic assumptions; a low-single-digit margin story would mean the transition failed.

The bear 2046 description is also specific. Baidu becomes a former search champion with a shrinking ad base, a cloud business that grew but commoditized against Alibaba, Tencent, Huawei, and state-backed infrastructure, AI applications that never locked workflows, Apollo operations that stayed limited by regulation and capital intensity, and iQIYI that remained low-margin. In that world, Baidu still has revenue and cash but lacks a high-return reinvestment engine. The mechanism is not one sudden obsolescence event. It is platform shift: consumer attention moves to short-video/social/agent surfaces, enterprise AI buying consolidates around larger cloud ecosystems or open-source stacks, and robotaxi economics fail to scale beyond demonstration cities. This bear case is material, not remote.

The 2046 test is therefore YELLOW. I can describe a specific business that still earns money in 2046, but the evidence does not yet prove that Baidu owns the enduring profit pool rather than participating in several competitive, capital-intensive markets. Upgrade requires observable proof that AI-powered revenue comes with durable margins and switching costs. Downgrade to FAIL if online marketing keeps falling rapidly and AI Cloud/app growth fails to translate into normalized operating income and cash conversion.

6. Competitive Threat Inventory

Threat	Mechanism	Segment(s) affected	Earliest observable signal	Plausibility
China attention-share migration	Users and advertisers shift discovery to short video, social commerce, super apps, vertical marketplaces, and AI assistants	Search, feed, online marketing, AI-native marketing	Online marketing revenue remains down double digits while AI-native marketing does not offset	High
AI Cloud commoditization	Alibaba, Tencent, Huawei, state-linked cloud, open-source models, and specialized AI labs pressure pricing and capture enterprise workflows	AI Cloud Infra, ERNIE, AI applications	AI Cloud revenue grows but BGB normalized margin and OCF conversion do not improve	High
Robotaxi capital/regulatory drag	City approvals, safety, vehicle cost, utilization, insurance, and local partners limit Apollo scaling economics	Apollo Go	Rides grow without disclosed city-level contribution margin or wider commercial permits	Medium-high
Content platform erosion	Hit-driven content costs, consumer churn, and competing entertainment platforms keep iQIYI low margin	iQIYI	Membership revenue and operating income trend down despite cost discipline	Medium-high

7. Pricing Power Verification

Pricing power is not yet proven at the consolidated level. The best evidence is indirect: Baidu's AI Cloud Infra grew 79% year over year in Q1 2026, GPU Cloud grew 184%, management says GPU Cloud usually carries better margin profiles, and enterprise subscription revenue accounted for more than half of enterprise cloud revenue in Q2 2025. Those facts suggest demand strength and potentially better quality revenue, but they do not disclose realized price increases, churn, net retention, gross margin by cloud product, or multi-year escalators.

Online marketing pricing power is weak in current evidence. If Baidu had strong advertiser pricing power, a 22% year-over-year decline in Q1 online marketing would be unlikely without a severe deliberate mix reset. AI-native marketing services grew 36% in Q1 2026, but the broader ad pool is still under pressure. iQIYI has limited pricing power because content value and member churn constrain subscription pricing. Apollo's future pricing power is unknown; low fares may help utilization and regulatory acceptance, but ride-hailing markets are usually price sensitive. The most plausible long-term pricing power sits in enterprise AI workflows and regulated autonomy operations, not in legacy ads or video.

Area	Observable evidence	Pricing-power verdict
Legacy online marketing	Q1 2026 BGB online marketing down 22% YoY	Weak
AI-native marketing	Q1 2026 revenue RMB2.3bn, up 36% YoY	Emerging but not proven
AI Cloud Infra / GPU Cloud	Q1 2026 AI Cloud Infra up 79%, GPU Cloud up 184%; management says GPU Cloud has better margin profiles	Possible, needs margin and retention disclosure
AI Applications	Q1 2026 revenue RMB2.5bn, approximately flat YoY	Not yet observable
Apollo Go	Management says largest city achieved unit-economics break-even; no separate revenue disclosure	Unproven
iQIYI	FY2025 margin 0.8%, TTM loss	Weak

8. Moat Verdict

Moat gate: YELLOW. Baidu has real moat assets in Chinese search distribution, intent data, domestic AI engineering, enterprise AI Cloud positioning, regulatory/localization fit, Apollo operating data, and balance-sheet-funded investment capacity. But the observable economics are not yet strong enough for a PASS: legacy online marketing is declining sharply, AI Cloud margins and switching costs are not separately proven, AI Applications are flat, iQIYI is low quality, and Apollo is still optionality rather than a disclosed profit engine.

2046 test: YELLOW. A specific 2046 Baidu can be described: a domestic AI operating layer across agents, merchant outcomes, enterprise AI infrastructure, and autonomous mobility. The problem is probability and return quality, not imagination. The current evidence supports a credible transition case but not a completed 20-year moat case. The strongest moat is Baidu General Business's search-intent distribution plus domestic AI stack. The weakest moat is iQIYI, followed by unproven standalone AI applications. The moat upgrades only if AI-powered business growth produces sustained normalized BGB margins, visible enterprise switching costs, and cash conversion while legacy ad declines moderate.

Observable upgrade signals: online marketing decline narrows to low single digits or stabilizes while AI-native marketing grows; AI Cloud publishes or demonstrates improving gross margin, utilization, retention, and subscription mix; AI Applications return to double-digit growth with paid-user or enterprise-seat evidence; Apollo discloses repeatable city-level contribution margin beyond one largest city. Observable downgrade signals: online marketing remains down more than 15% annually, AI Cloud growth slows or becomes margin dilutive, AI Applications stay flat, Apollo requires heavy capital without economic disclosure, or iQIYI returns to persistent operating losses.

Appendix B1 - Baidu General Business

Baidu General Business - Segment Deep Dive

Output owner: Subagent B

Company: Baidu, Inc.

Ticker: BIDU

Segment name: Baidu General Business

Segment slug: baidu_general_business

Output path: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Baidu\appendix_B_baidu_general_business.md`

All financial amounts are RMB billions unless otherwise stated. The controlling source for Baidu historical dollar figures, product disclosures, and management commentary is `data_package.md`; the controlling quantitative reconciliation file is `quant_foundation.md`. External sources are used only for competitive context, not to override Baidu's reported or management-account numbers.

0. Segment Boundary And Taxonomy Note

Baidu General Business is Baidu's primary reportable segment and the correct audited segment boundary for this appendix. The data package states that Baidu currently reports two reportable segments: Baidu General Business and iQIYI, with intersegment eliminations reconciling to consolidated Baidu. The reportable segment structure is stable in the Form 20-F segment table for 2023 through 2025, but the investor-view naming changed in Q4 2025. Baidu redefined Baidu Core as Baidu General Business and introduced a management-account view that splits Baidu General Business into Baidu Core AI-powered Business, Legacy Business, and Others. This appendix models Baidu General Business as the audited segment and uses AI Cloud Infra, AI Applications, AI-native Marketing Services, Legacy Business, GPU Cloud, Apollo Go, Kunlunxin, Wenku, Drive, Miaoda, MeDo, and related lines only as subsegment context where disclosed. The boundary matters because AI-powered Business is not a third audited segment and because several attractive growth lines are management-account disclosures with limited margin history.

Stage 0 anchor: today is 2026-05-28; Baidu's fiscal year ends December 31; the most recently reported quarter is Q1 2026, period ended March 31, 2026; the TTM anchor is Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, ending March 31, 2026; and the forward horizon is March 31, 2031, exactly five calendar years after the TTM end date.

1. What This Segment Actually Is

Baidu General Business is a combination of an old, highly trafficked Chinese search and feed advertising franchise and a newer AI infrastructure, AI application, and autonomous-driving portfolio. The core customer base is therefore mixed. On the legacy side, customers are advertisers buying search, feed, and other performance or brand marketing inventory against users of Baidu App and related properties. On the AI Cloud Infra side, customers are enterprises, internet companies, automotive companies, public sector entities, financial services firms, utilities, embodied AI companies, and other organizations renting or subscribing to computing, model, and platform infrastructure. On the AI Applications side, customers include consumers and enterprises using Wenku, Drive, Miaoda, MeDo, Famou Agent, digital employee products, and other ERNIE-enabled productivity or content products. On the Apollo Go side, the direct end user is a rider, but the commercial model is shaped by city-level operations, vehicle utilization, fare levels, regulatory permission, and partner-led international distribution. Kunlunxin is a strategic AI-chip and accelerator capability, with a proposed spin-off and separate listing announced in Q4 2025, but it is not separately reported as a Baidu General Business revenue line.

The pricing models differ sharply across the segment. Traditional online marketing is primarily ad driven and sensitive to advertiser budgets, bid density, click-through quality, traffic mix, and the degree to which AI search compresses or expands paid-link monetization. AI-native Marketing Services sits between old and new: it monetizes agents and digital humans used in marketing workflows, but it still competes for advertiser budgets and can cannibalize traditional ad formats. AI Cloud Infra and GPU Cloud are capacity and usage businesses; pricing depends on accelerator supply, utilization, reserved or subscription commitments, inference and training demand, network and storage attach, and the gross margin that remains after depreciation, energy, and operations costs. AI Applications can monetize through subscriptions, enterprise seats, usage, productivity outcomes, or bundled value inside Baidu's ecosystem. Apollo Go is closest to a transportation network model, but

the revenue base is not separately disclosed in the data package, so it must be treated as optionality inside residual Baidu General Business rather than as a historical profit center.

Go-to-market is also heterogeneous. Search and feed advertising is sold through Baidu's established advertiser and agency channels. AI-native marketing sells into the same advertiser base but changes the product from ad placement to AI-enabled creative, agent, or digital-human workflow. AI Cloud Infra sells to enterprises and developers that need compute and AI platform services. The data package highlights management commentary that enterprise cloud subscription revenue accounted for more than half of enterprise cloud revenue in Q2 2025 and grew steadily, while project revenue may be reduced over time for stability. That is an important quality signal: subscription infrastructure revenue is more repeatable than low-margin project integration work, but reducing project work can suppress reported growth in a transition year. AI Applications rely on product-led adoption and enterprise selling. Apollo Go relies on municipal approvals, fleet operations, and partnerships, including Uber in Dubai and Lyft in Europe, both discussed in the data package.

The economic problem is that these businesses are at different points in maturity. The legacy ad business likely still has the highest current profit pool, but it is shrinking. AI Cloud Infra is growing fast, but requires heavy investment and can be brutally competitive if compute pricing becomes commoditized. AI Applications have many visible launches but only flat Q1 2026 revenue in the data package. AI-native Marketing Services has very high 2025 growth, but its Q1 2026 growth slowed to 36% and it is still embedded in a broader online marketing pool that fell 22% in Q1 2026. Apollo Go has operational scale and a city-level break-even claim, but no disclosed segment revenue. Therefore, this appendix is not a simple "AI up, ads down" story. The segment can compound only if the fast-growing AI lines grow large enough, convert to durable gross margin, and do so without destroying the remaining cash generation of search and feed.

2. Current Economics

The audited segment base is Baidu General Business revenue of RMB103.023bn for the TTM ending March 31, 2026, from QF P4 and data_package section 5. Reported TTM operating income is RMB-6.792bn, a reported operating margin of -6.6%. This reported margin is distorted by the Q3 2025 RMB16.190bn long-lived asset impairment. Because the impairment is explicitly attributable to the core asset group in the data package and QF, the economic analysis should show two bases: reported TTM and ex-impairment TTM. Adding back the impairment to Baidu General Business operating income gives a non-GAAP analytical lens of roughly RMB9.398bn of TTM operating income, or 9.1% of TTM revenue. This is not GAAP, not a valuation shortcut, and not a claim that the impairment is irrelevant. It is a way to separate one-time asset write-down accounting from the recurring economics that the forward model must test.

Annual segment history shows why the 2025 result cannot be accepted at face value without explanation. Baidu General Business revenue was RMB103.465bn in FY2023, RMB104.712bn in FY2024, and RMB102.485bn in FY2025, according to data_package section 3 and QF P2. Operating income was RMB18.825bn in FY2023, RMB19.478bn in FY2024, and RMB-6.044bn in FY2025. Operating margin was 18.2%, 18.6%, and -5.9%, respectively. The FY2025 margin collapse is not a normal incremental-margin outcome; it reflects the impairment and the strain of the AI transition. Still, even before impairment, the segment is not yet back to its old high-teens margin because revenue mix, cloud depreciation, AI search monetization, and product investment are changing the cost base.

The latest quarter is more constructive on revenue mix but not yet a complete proof of economics. Q1 2026 Baidu General Business revenue was RMB26.001bn, up 2% YoY and flat QoQ, with operating income of RMB3.416bn and operating margin of 13.1%. Online marketing revenue was RMB12.6bn, down 22% YoY, while other within Baidu General Business was RMB13.4bn, up 42% YoY. Baidu Core AI-powered Business was RMB13.6bn, up 49% YoY, which means management's AI-powered view exceeded half of Baidu General Business revenue in Q1 2026. AI Cloud Infra was RMB8.8bn, up 79%; AI Applications were RMB2.5bn, approximately flat; and AI-native Marketing Services were RMB2.3bn, up 36%. Legacy Business was RMB10.2bn, down 29%. The segment therefore returned to modest growth only because AI lines grew through a steep legacy decline.

Capital intensity is structurally higher than the historical search business. The data package's capital allocation section shows consolidated FY2025 capex of RMB13.417bn, or 10.4% of revenue, up from 6.1% in FY2024, and management said Baidu can support AI investment through operating cash flow, leases, borrowings, and its large cash position. Q4 2025 commentary also said Baidu has invested more than RMB100bn in AI since ERNIE launched in March 2023 and will maintain investment density. A search advertising business with high incremental margin can look excellent with modest capex. A GPU cloud business can look attractive when utilization is high, but it needs expensive assets, has shorter technology cycles, and faces supply-chain constraints. The segment's forward margin is therefore a utilization and depreciation problem as much as a gross margin problem.

For modeling, I split TTM Baidu General Business into five analytical lines. These are not audited segment lines; they are management-account and residual lines used to make the forecast transparent. Legacy traditional marketing is estimated at RMB48.8bn, based on TTM online marketing of RMB59.2bn less estimated TTM AI-native Marketing Services of RMB10.4bn. AI Cloud Infra is estimated at RMB23.7bn, using FY2025 RMB19.8bn plus Q1 2026 RMB8.8bn less an inferred Q1 2025 of roughly RMB4.9bn implied by Q1 2026 growth of 79%. This avoids treating the Q2 2025 "AI cloud revenue" disclosure as perfectly interchangeable with the newer AI Cloud Infra management-account line when the annual and quarterly management-account rows do not fully tie. AI Applications are estimated at RMB10.2bn, using FY2025 RMB10.2bn and Q1 2026 flat YoY to infer a TTM close to the FY2025 run rate. AI-native Marketing Services are estimated at RMB10.4bn, using FY2025 RMB9.8bn, Q1 2026 RMB2.3bn up 36%, and Q3/Q4 disclosures. Other, Apollo Go, Kunlunxin-related residual, and non-disclosed businesses are the remaining RMB9.9bn required to tie to the RMB103.023bn audited segment TTM base. Every forward case in section 10 sums back from these five lines.

3. Unit Economics

Legacy traditional marketing revenue has the cleanest unit economics but the least attractive growth. In a conventional search and feed ad model, traffic acquisition costs are lower than for many open-web ad networks because Baidu owns major user surfaces, and incremental ad serving can carry high contribution margin. The cost drivers are product and engineering, sales and channel support, content and compliance, cloud serving infrastructure, and traffic quality maintenance. What breaks margin down is not primarily cost per query; it is monetization per query. AI-generated answers can reduce paid click inventory or shift user behavior from link selection to answer consumption. Baidu's management commentary in data_package section 6 explicitly says user experience remains the top priority for AI search monetization and describes a move from static links toward structured, multimodal, AI-generated responses and then task completion. That is strategically sensible but financially awkward: the company may deliberately protect user experience while deferring monetization.

AI-native Marketing Services have better growth but less proven unit economics. Agents and digital humans can increase advertiser value by improving creative generation, customer service, lead qualification, or conversion workflows. If priced on outcomes, this line could capture more value than standard CPC ad inventory. It also can defend Baidu's advertiser relationships against competing social, e-commerce, and short-video platforms by embedding Baidu AI into advertiser workflows. The risk is cannibalization. If an advertiser migrates a budget from traditional paid search into AI-native marketing, Baidu may report growth in the new line while total online marketing still shrinks. Q1 2026 shows this tension: AI-native Marketing Services grew 36%, but online marketing fell 22% and Legacy Business fell 29%. The unit economic question is whether AI-native marketing expands advertiser ROI enough to stabilize the whole ad wallet, not just re-label part of it.

AI Cloud Infra and GPU Cloud are the segment's central operating leverage bet. Management commentary in data_package section 6 says GPU Cloud usually carries better margin profiles, that demand comes from training and inference workloads, and that inference is ramping fast. In principle, a well-utilized GPU cloud can earn attractive gross profit because customers value scarce compute, low-latency networking, model integration, and platform tooling. In practice, margin depends on the purchase price or lease cost of accelerators, power and data center cost, depreciation life, utilization, pricing discipline, and whether customers are buying commodity GPU hours or a differentiated full-stack platform. The Q3 2025 impairment is a warning that AI infrastructure assets can become economically impaired. It should not be ignored just because Q1 2026 revenue accelerated.

AI Applications have a more software-like margin destination but a slower current revenue signal. Wenku, Drive, Miaoda, MeDo, Famou Agent, digital employees, and ERNIE-powered products can theoretically produce high gross margin once the model and inference layer is scaled. However, Q1 2026 AI Applications revenue was RMB2.5bn and approximately flat YoY despite many product launches. That means the installed product activity is not yet translating into broad revenue acceleration. The unit economics can improve if Baidu packages applications into paid productivity bundles, enterprise workflows, or results-based monetization, but until revenue growth reappears, assigning a mature software margin would be heroic.

Apollo Go is not separately disclosed, so its unit economics must stay scenario-based. The data package says management reported unit-economics break-even in its largest operational city in China despite low fares, cited RT6 vehicle cost advantage, and reported more than 22m cumulative rides as of April 2026. Those facts support the possibility of city-level operating leverage: once vehicle cost, safety operations, mapping, remote assistance, and utilization are optimized, incremental rides can improve economics. But city-level break-even is not consolidated segment profitability. International partnerships can lift fare levels and validate technology, but they also add local regulation, fleet ownership questions, insurance, maintenance, and partner take rates. I therefore leave Apollo Go inside the residual line with negative or modest margins in bear and base cases, and only modest positive margin in the bull case.

The segment-level margin bridge is therefore a mix equation. Legacy advertising can produce high operating margins if revenue stops falling too quickly. AI Cloud Infra can become a meaningful profit contributor if utilization and pricing absorb capex and depreciation. AI-native Marketing Services can become attractive if it grows the total ad wallet rather than merely cannibalizing legacy paid links. AI Applications can improve blended margin if monetization catches up with usage. Apollo Go and other residual projects are optionality but likely consume capital and management attention before they contribute much operating income.

4. Competitive Dynamics

In search, Baidu still has scale but not unchallenged pricing power. The Egg, citing StatCounter as of November 2025, reported Baidu at 63.97% all-device China search share, with mobile at 77.86% and desktop at 39.38%; Bing was a meaningful desktop competitor at 33.44%. This is not a perfect measure of monetizable ad share, and it should not override Baidu's own revenue disclosure. It does show a two-sided reality: Baidu remains the most important Chinese search engine, especially on mobile, but desktop search is contested and user behavior is fragmenting across AI answer engines, social search, e-commerce search, and short-video discovery. Baidu's search moat is therefore more user intent and local data than absolute monopoly.

The AI search transition changes the basis of competition. Old search rewarded index quality, advertiser density, landing-page relevance, and auction liquidity. AI search rewards answer quality, multimodal synthesis, agentic task completion, model cost, content compliance, and trust. Baidu has advantages in Chinese language search behavior, local regulatory compliance, advertiser relationships, and ERNIE integration. It also has a disadvantage if AI answers reduce commercial click inventory before Baidu develops better monetization. Management's "user experience first" stance is strategically credible but implies near-term monetization sacrifice. In the base case, legacy search keeps declining but at a slower rate as AI-native marketing and improved AI search formats recover part of the lost yield. In the bear case, AI search permanently compresses paid inventory and advertisers shift budgets to platforms closer to transaction, entertainment, or social intent.

In cloud infrastructure, Baidu competes against much larger or better-capitalized cloud platforms. Omdia data summarized by Data Center Dynamics indicated Mainland China cloud infrastructure services grew 26% YoY in Q4 2025, with AI as the main driver; Alibaba held 37% market share, Huawei 17%, and Tencent 10%. Baidu was not listed among the top three in that broad cloud infrastructure ranking. That matters because generic cloud scale, procurement, ecosystem, and channel breadth may favor Alibaba, Huawei, and Tencent. Baidu's claim is narrower: AI Cloud Infra and GPU Cloud, not all cloud. In AI IaaS, IDC data summarized by Sina/TechWeb said China's H1 2025 AI IaaS market grew 122.4% YoY to RMB19.87bn, GenAI IaaS grew 219.3% to RMB16.68bn, and Alibaba Cloud, Volcano Engine, and Baidu ranked among the top three in GenAI IaaS. The same report described Baidu's Kunlun chip and Baige platform as technical advantages in compute, networking, and training/inference clusters. This supports a differentiated AI-infrastructure thesis but not a generic cloud-share thesis.

In AI applications, Baidu faces two categories of competitors. The first is Chinese AI model and platform companies building consumer or enterprise agent products. The second is the existing software or content workflow that each Baidu product tries to replace or augment. Wenku and Drive have local distribution, content, and storage advantages, but they are not immune to standalone AI productivity tools. Miaoda and MeDo need developer and creator adoption. Famou Agent and digital employee products need enterprise workflow proof. The key competitive question is whether Baidu's products are default surfaces with embedded demand or merely AI features that users can substitute. The Q1 2026 flat AI Applications revenue line suggests the market has not yet settled in Baidu's favor.

In autonomous ride-hailing, Apollo Go's competitors include domestic autonomous-driving platforms, automakers with self-driving stacks, ride-hailing platforms that can choose technology partners, and U.S. or global robotaxi leaders in overseas markets. Baidu has meaningful operational scale, cumulative ride data, purpose-built vehicle work, and partner validation through Uber and Lyft announcements. However, robotaxi competition is local and regulatory. A city may allow a service, restrict fleet size, require local partners, set fare rules, or demand safety reporting. Data scale is a real learning advantage, but it does not create pricing power unless Baidu has exclusive access to cities, superior unit cost, or better safety and utilization.

The result is a segment with pockets of moat but little segment-wide pricing power. Baidu's strongest defensible position is in Chinese search intent plus AI infrastructure optimized for Chinese enterprise and generative AI workloads. Its weakest position is in generic advertising budget competition and generic cloud compute if price competition intensifies. A credible bull case requires Baidu to convert technical and distribution advantages into workflow lock-in, not just traffic or GPU availability.

External context sources used in this section: The Egg search market article, https://www.theegg.com/seo/china/most-popular-search-engines-in-china; Data Center Dynamics/Omdia cloud infrastructure

article, https://www.datacenterdynamics.com/en/news/chinese-cloud-infrastructure-spend-up-26-in-q4-2025/; Sina/TechWeb summary of IDC AI IaaS tracking, https://finance.sina.com.cn/tech/roll/2025-10-21/doc-infurpnt9093946.shtml.

5. Segment-Level Moat

Baidu General Business has a real but transitioning moat. The legacy moat is search habit, Chinese-language index and query data, advertiser relationships, brand recognition, and distribution across Baidu App and related surfaces. That moat still matters because user intent is commercially valuable. However, the data package shows legacy and online marketing falling sharply, so the legacy moat is not currently protecting revenue. A moat that protects traffic but not monetization is not enough for a Gideon-quality compounder.

The newer AI moat has four layers. First, Baidu has full-stack infrastructure: AI Cloud Infra, GPU Cloud, ERNIE models, Baige platform, and Kunlunxin chips. Second, it has application surfaces where models can be deployed into real user workflows: Search, Wenku, Drive, Miaoda, MeDo, digital humans, and agents. Third, it has enterprise customers that may value local compliance and integrated AI infrastructure. Fourth, Apollo Go creates real-world autonomous-driving data and operational learning. These layers can reinforce each other if cloud customers adopt ERNIE and Baidu applications, if AI search increases user engagement, if Kunlunxin improves compute supply and cost, and if Apollo Go's data scale compounds safety and utilization.

The moat is not yet fully proven in financial outputs. AI Cloud Infra revenue growth is excellent, but product-level margins and backlog are not disclosed. AI Applications are strategically important but not growing in Q1 2026. AI-native Marketing Services grew rapidly in FY2025 but decelerated by Q1 2026 and sits in a declining ad pool. Apollo Go has cumulative rides and a city-level break-even claim but no revenue disclosure. Kunlunxin may become strategically valuable, but the proposed spin-off means future economics may be shared or partly deconsolidated depending on structure. The moat therefore deserves a "promising but unproven" label rather than a blanket high-quality rating.

Over five to ten years, durability depends on whether Baidu can defend differentiated AI workloads rather than commodity compute. If customers use Baidu Cloud mainly because GPU supply is available, returns can compress as supply improves. If they use it because Baidu offers a superior Chinese AI stack, model integration, inference optimization, compliance, chips, and application distribution, returns can be more durable. For advertising, durability depends on whether Baidu can make AI search a better commercial surface than old paid links. For Apollo Go, durability depends on city approvals, fleet scale, vehicle cost, safety record, and data feedback loops.

My base case assumes Baidu General Business has enough moat to recover ex-impairment operating margin toward high teens by TTM+5, but not enough to restore the historical search-era economics across the whole segment. The bull case allows the AI stack to become a durable, high-growth profit pool. The bear case assumes the moat is fragmented: legacy search continues to erode, AI Cloud grows but earns low margin due to competition and capex, applications fail to monetize, and Apollo remains an expensive option.

6. Historical Growth Rates Reproduced From Data Package

The table below uses the data package as the controlling source. FY2021 and FY2022 current-taxonomy segment dollars are not in QF, so the audited segment history is limited to FY2023-FY2025. For product and management-account rows, Baidu discloses FY2025 and recent-quarter figures but does not provide complete three-year product history. Those missing cells are intentionally shown as N/A rather than backfilled.

For each row, the Data package cite column applies to every historical dollar, growth, and recent YoY cell in that row. Rows with N/A cells are left blank because the cited data package row does not disclose the requested historical figure.

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	CAGR shown	Most recent YoY	Data package cite
Baidu General Business reportable segment	103.465	104.712	102.485	-0.5% over FY2023-FY2025	Q1 2026 BGB +2%; FY2025 -2.1%	data_package section 3, Baidu General Business table; section 5 reportable segment quarterly trend
Online Marketing Services revenue type	N/A	N/A	67.837	N/A	Q1 2026 online marketing -22%	data_package section 4, Products and subsegments with dollar disclosure row Online Marketing Services; section 5 selected product trend

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	CAGR shown	Most recent YoY	Data package cite
Baidu Core AI-powered Business management account	N/A	N/A	40.000	N/A	Q1 2026 +49%	data_package section 4, Products and subsegments with dollar disclosure row Baidu Core AI-powered Business
AI Cloud Infra	N/A	N/A	19.800	N/A	Q1 2026 +79%	data_package section 4, AI Cloud Infra row; section 5 selected product trend
AI Applications	N/A	N/A	10.200	N/A	Q1 2026 approximately flat	data_package section 4, AI Applications row; section 5 selected product trend
AI-native Marketing Services	N/A	N/A	9.800	N/A	Q1 2026 +36%; FY2025 +301%	data_package section 4, AI-native Marketing Services row; section 5 selected product trend
Legacy Business	N/A	N/A	N/A	N/A	Q1 2026 -29%	data_package section 4, Legacy Business row; section 5 selected product trend
Apollo Go	N/A	N/A	revenue not separately disclosed	N/A	Q1 2026 rides +120% plus	data_package section 4, Apollo Go row; section 5 selected product trend

Arithmetic check for the audited segment row: FY2024 revenue of RMB104.712bn multiplied by one minus the disclosed FY2025 decline of 2.1% equals about RMB102.5bn, matching FY2025 revenue of RMB102.485bn within rounding. FY2023 revenue of RMB103.465bn to FY2024 revenue of RMB104.712bn implies 1.2% growth, matching the data package. No product-level back-solved historical dollar rows are used in this table because the data package explicitly says no back-solved product dollar rows are included.

The forecast base below is a TTM analytical allocation built from disclosed quarterly and annual management-account data. It is not an audited historical table. It exists so the five-year model can sum to the audited TTM Baidu General Business revenue base of RMB103.023bn.

Analytical line	TTM revenue base	Construction	Data package cite
Legacy traditional marketing	48.8	TTM online marketing of 59.2 less estimated TTM AI-native Marketing Services of 10.4	data_package section 5 selected product trend; section 4 AI-native Marketing row
AI Cloud Infra / GPU Cloud	23.7	FY2025 19.8 + Q1 2026 8.8 - inferred Q1 2025 4.9 from Q1 2026 +79%; avoids mixing Q2 AI cloud wording with the newer AI Cloud Infra line	data_package section 4 AI Cloud Infra row; section 5 selected product trend
AI Applications	10.2	FY2025 10.2 and Q1 2026 flat YoY imply a similar TTM run rate	data_package section 4 AI Applications row; section 5 selected product trend
AI-native Marketing Services	10.4	FY2025 9.8 plus Q1 2026 replacement for Q1 2025, using Q1 2026 +36% to infer Q1 2025	data_package section 4 AI-native Marketing row; section 5 selected product trend
Other / Apollo Go / residual	9.9	Residual needed to tie analytical lines to BGB TTM revenue of 103.023	QF P4 TTM segment construction; data_package section 5
Baidu General Business total	103.0	Sum of analytical lines	QF P4 and data_package section 5

Tie-out note: 48.8 + 23.7 + 10.2 + 10.4 + 9.9 = RMB103.0bn, matching Baidu General Business TTM revenue of RMB103.023bn within rounding. The estimated lines are AI Cloud Infra TTM, AI-native Marketing TTM, legacy traditional marketing, and the residual line. They are labeled analytical estimates because the data package does not provide a complete, internally tied quarterly table for all management-account lines.

7. Management Guidance Quoted From Data Package Section 6

Management commentary is the anchor for the forecast, but it is not accepted uncritically. Each item below is pulled from data_package section 6.

Period	Topic	Short quote or paraphrase from data package	Interpretation
Q1 2026 call	AI mix	Robin Li: "AI has become the core driver of Baidu."	The company is explicitly repositioning Baidu General Business from ad-led to AI-led, consistent with AI-powered Business exceeding half of BGB revenue in Q1 2026.
Q1 2026 call	AI Cloud Infra	Management said AI Cloud Infra grew well above the broader market, with demand from training and inference workloads and inference ramping fast.	Supports high growth in AI Cloud Infra, but requires capex and utilization discipline.
Q1 2026 call	GPU Cloud margin	Henry He: "GPU Cloud usually carries better margin profiles."	A margin uplift is possible if mix shifts to GPU Cloud and utilization holds, but no product margin is disclosed.
Q4 2025 call	2026 cloud outlook	Dou Shen said enterprise AI deployments are deepening and AI accelerator infrastructure should remain a core driver of cloud growth.	The base case should keep AI Cloud Infra as the largest growth engine through the horizon.
Q3 2025 call	Demand sustainability	Dou Shen said AI-centric cloud demand is broad-based across internet, automotive, embodied AI, public sector, financial services, and utilities.	Customer diversity reduces single-vertical risk, although backlog and retention are not disclosed.
Q2 2025 call	Revenue quality	Enterprise cloud subscription revenue accounted for more than half of enterprise cloud revenue and grew steadily; project revenue may be reduced over time.	Quality may improve even if project rationalization dampens near-term reported cloud growth.
Q1 2026 call	Kunlunxin	Management described Kunlunxin as part of Baidu's full-stack AI infrastructure and said customer adoption is expanding across industries.	Treat Kunlunxin as strategic supply and cost optionality, not a separately valued revenue line in this segment model.
Q4 2025 release and call	Kunlunxin spin-off	Baidu announced a proposed spin-off and separate listing of Kunlunxin.	Potential value unlock, but the ownership and economics after listing are unknown.
Q4 2025 call	AI strategy	Robin Li: "applications matter more than models."	Supports modeling applications and workflow monetization, not just model API revenue.
Q2 2025 call	AI search monetization	Julius Luo: "user experience remaining our top priority."	Near-term legacy ad pressure is partly intentional; monetization is delayed until AI search experience stabilizes.
Q3 2025 call	AI-native marketing	AI-native marketing reached 18% of Baidu Core online marketing revenue in Q3, up from 4% a year earlier.	AI-native marketing can offset legacy ad pressure, but it sits inside the same ad wallet.
Q1 2026 call	Agent monetization	Management said token pricing is common today but future AI application monetization should be broader and more results-oriented.	Long-term pricing could improve, but the current model is early.
Q1 2026 release	AI Applications	Q1 AI Applications revenue was RMB2.5bn, approximately flat YoY.	Product launches alone do not justify aggressive application growth.
Q1 2026 call	Apollo Go scale	Apollo Go completed more than 22m cumulative rides as of April 2026 and expanded across key overseas markets.	Operational scale is real, but revenue is not separately disclosed.
Q1 2026 call	Apollo Go unit economics	Management said Apollo Go achieved unit-economics break-even in its largest operational city in China despite low fares.	This is a city-level proof point, not segment-level profitability.
Q2 2025 call	Apollo Go cost structure	Management described RT6 as purpose-built L4 vehicle with cost advantage and cited Wuhan break-even.	Vehicle cost and utilization are the core robotaxi economic variables.
Q3 2025 call	Margins	Henry He: "Q3 represents a low point for margins."	The forward model should not permanently capitalize the Q3 impairment, but it should demand evidence of recovery.

[DATA GAP: the data package does not disclose AI Cloud Infra margins, AI Applications margins, AI-native Marketing margins, Apollo Go revenue, Apollo Go segment losses, Kunlunxin revenue, or backlog. Product-level margin assumptions below are therefore analytical assumptions, not disclosed facts.]

8. Forward Growth Assumptions

The five-year forecast compounds from the TTM ending March 31, 2026 to March 31, 2031. The model uses the analytical TTM revenue base in section 6 and then sums the product lines back to Baidu General Business. The base case does not assume a clean return to the old search economics. It assumes legacy marketing continues shrinking, AI Cloud Infra stays strong but decelerates, AI Applications resume moderate growth, AI-native Marketing grows faster than legacy but slower than FY2025, and Apollo/other remains a modest option value line.

Base case growth:

Product	TTM revenue base	Historical anchor	Latest YoY	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Legacy traditional marketing	48.8	Q1 2026 Legacy -29%; online marketing -22%	-29%	No formal guide; user experience prioritized in AI search	-6%	Decline moderates as the easiest AI-search monetization pressure laps, but old paid-link economics remain structurally impaired.
AI Cloud Infra / GPU Cloud	23.7	FY2025 AI Cloud Infra +34%; Q1 2026 +79%	+79%	AI accelerator infrastructure remains core driver	+18%	Strong demand and GPU Cloud mix support high growth, but the line decelerates as the base scales and competition increases.
AI Applications	10.2	FY2025 +5%; Q1 2026 flat	0%	Applications matter more than models	+8%	Product launches eventually monetize, but flat Q1 revenue argues against a heroic near-term ramp.
AI-native Marketing Services	10.4	FY2025 +301%; Q1 2026 +36%	+36%	Outcome-oriented agent monetization is early	+12%	AI-native marketing keeps taking share inside ad workflows but slows sharply from early adoption and cannibalizes some legacy revenue.
Other / Apollo Go / residual	9.9	Apollo Go rides +120% plus in Q1, revenue undisclosed	N/A	Apollo Go city-level break-even in largest city	+8%	Residual grows with Apollo and other AI projects, but lack of revenue disclosure keeps the case conservative.

Bear case growth:

Product	TTM revenue base	Historical anchor	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Legacy traditional marketing	48.8	Q1 2026 Legacy -29%; online marketing -22%	-29%	No formal guide; user experience prioritized in AI search	-12%	AI answers reduce ad inventory and advertisers move budgets toward transaction and social platforms faster than Baidu can remonetize.
AI Cloud Infra / GPU Cloud	23.7	FY2025 AI Cloud Infra +34%; Q1 2026 +79%	+79%	AI accelerator infrastructure remains core driver	+10%	Growth decelerates sharply as compute supply expands, pricing falls, and project rationalization weighs on reported revenue.
AI Applications	10.2	FY2025 +5%; Q1 2026 flat	0%	Applications matter more than models	+1%	Usage does not convert to paid adoption; products remain feature extensions rather than standalone profit pools.
AI-native Marketing Services	10.4	FY2025 +301%; Q1 2026 +36%	+36%	Outcome-oriented agent monetization is early	+5%	AI-native tools cannibalize old ad spend without expanding the total wallet enough to offset legacy declines.

Product	TTM revenue base	Historical anchor	Latest YoY	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Other / Apollo Go / residual	9.9	Apollo Go rides +120% plus in Q1, revenue undisclosed	N/A	Apollo Go city-level break-even in largest city	0%	Robotaxi and residual AI projects remain operationally interesting but do not produce material disclosed revenue.

Bull case growth:

Product	TTM revenue base	Historical anchor	Latest YoY	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Legacy traditional marketing	48.8	Q1 2026 Legacy -29%; online marketing -22%	-29%	No formal guide; user experience prioritized in AI search	-1%	AI search stabilizes monetization and AI-native formats recapture most lost advertiser yield.
AI Cloud Infra / GPU Cloud	23.7	FY2025 AI Cloud Infra +34%; Q1 2026 +79%	+79%	AI accelerator infrastructure remains core driver	+25%	Baidu sustains a leading GenAI IaaS position through Kunlunxin, Baige, inference demand, and high utilization.
AI Applications	10.2	FY2025 +5%; Q1 2026 flat	0%	Applications matter more than models	+15%	Wenku, Drive, Miaoda, MeDo, Famou, and enterprise agents find repeatable paid workflows after the initial product ramp.
AI-native Marketing Services	10.4	FY2025 +301%; Q1 2026 +36%	+36%	Outcome-oriented agent monetization is early	+20%	Agents and digital humans expand advertiser ROI and become a higher-value marketing layer rather than just a substitute for clicks.
Other / Apollo Go / residual	9.9	Apollo Go rides +120% plus in Q1, revenue undisclosed	N/A	Apollo Go city-level break-even in largest city	+18%	Apollo Go partnerships and city expansions begin generating visible revenue, while other AI projects scale.

Year-by-year revenue bridge for the base case:

Product	TTM 2026	Year 1	Year 2	Year 3	Year 4	TTM+5 2031
Legacy traditional marketing	48.8	45.9	43.1	40.5	38.1	35.8
AI Cloud Infra / GPU Cloud	23.7	28.0	33.0	38.9	45.9	54.2
AI Applications	10.2	11.0	11.9	12.9	13.9	15.0
AI-native Marketing Services	10.4	11.6	13.0	14.6	16.4	18.3
Other / Apollo Go / residual	9.9	10.7	11.5	12.5	13.5	14.5
Baidu General Business total	103.0	107.2	112.6	119.4	127.8	137.9

The base case implies total Baidu General Business revenue CAGR of about 6.0% from TTM to TTM+5. This is not a heroic segment forecast because it requires a material mix rotation rather than broad acceleration. Legacy marketing shrinks by roughly RMB13.0bn over five years, while AI Cloud Infra grows by roughly RMB30.5bn. That is the entire thesis in arithmetic form: AI infrastructure must more than offset the old ad engine's erosion.

9. Forward Operating Margin Assumptions

The reported TTM segment margin is -6.6%, but the ex-impairment analytical margin is 9.1%. FY2023 and FY2024 audited segment margins were 18.2% and 18.6%, respectively, before the FY2025 impairment and the heaviest AI transition pressure. I do not simply restore the old margin. The base case lands at 17.7% in TTM+5 because the mix includes more cloud infrastructure and residual autonomous-driving or AI projects than the old search business, offset by better GPU Cloud utilization, AI-native marketing scale, and some recovery from the Q3 2025 low point.

Product	Current margin evidence	Bear TTM+5 margin	Base TTM+5 margin	Bull TTM+5 margin	Mechanism
Legacy traditional marketing	Segment historically high teens; legacy revenue now shrinking	24%	28%	31%	Lower revenue but still high contribution margin if ad systems and sales costs are rationalized.
AI Cloud Infra / GPU Cloud	Management says GPU Cloud usually has better margin profiles; no disclosed product margin	0%	14%	18%	Bear reflects price competition and depreciation; base reflects utilization and subscription mix; bull reflects differentiated AI stack.
AI Applications	Q1 2026 revenue flat; no disclosed margin	3%	18%	25%	Software-like margin is possible only after paid workflow adoption; bear assumes launches do not monetize.
AI-native Marketing Services	Fast growth inside online marketing; no disclosed margin	8%	24%	32%	Agent and digital-human tools can carry good margins if they expand advertiser ROI, but cannibalization and sales costs matter.
Other / Apollo Go / residual	Apollo revenue undisclosed; largest city unit-economics break-even claim	-25%	-2%	8%	Bear keeps robotaxi and other projects loss-making; base nears break-even; bull allows early fleet and partner leverage.
Baidu General Business blended	Reported TTM -6.6%; ex-impairment 9.1%; FY2024 18.6%	5.2%	17.7%	22.7%	Blended result from revenue-weighted product assumptions.

The largest margin swing is AI Cloud Infra. A move from near-zero margin in bear to 18% in bull may look wide, but it is the correct sensitivity because cloud economics are nonlinear. High utilization, reserved capacity, favorable chip cost, and platform attach can produce good margins. Idle capacity, rapid GPU depreciation, or price competition can erase them. The Q3 impairment is direct evidence that Baidu's asset base can be mispriced or repriced. The base case therefore uses 14%, below the legacy ad margin and below mature software margins.

The second swing is AI Applications. I give it 18% base margin at TTM+5, not because current revenue proves it, but because successful application revenue should have more software-like economics than GPU capacity. The bear case margin is only 3% because Q1 2026 revenue was flat and because inference cost, product investment, and customer acquisition can consume the gross profit of early AI applications. The bull case allows 25% if Baidu builds paid workflows with retention and pricing power.

Legacy traditional marketing receives the highest product margin even while revenue declines. This is not a claim that legacy is healthy. It is a claim that a shrinking but established ad business can still throw off cash if management reduces costs and accepts a smaller revenue base. The real risk is operating deleverage: if revenue falls faster than costs can be removed, the bear case margin could be too high. I partly address this by making the bear case revenue decline steep and the blended segment margin only 5.2%.

10. Segment Rollup

Bear case rollup:

Product	TTM revenue base	CAGR	TTM+5 revenue	TTM+5 margin	TTM+5 operating income
Legacy traditional marketing	48.8	-12%	25.8	24%	6.2
AI Cloud Infra / GPU Cloud	23.7	10%	38.2	0%	0.0
AI Applications	10.2	1%	10.7	3%	0.3
AI-native Marketing Services	10.4	5%	13.3	8%	1.1
Other / Apollo Go / residual	9.9	0%	9.9	-25%	-2.5
Baidu General Business total	103.0	-1.0% blended	97.8	5.2%	5.1

Base case rollup:

Product	TTM revenue base	CAGR	TTM+5 revenue	TTM+5 margin	TTM+5 operating income
Legacy traditional marketing	48.8	-6%	35.8	28%	10.0
AI Cloud Infra / GPU Cloud	23.7	18%	54.2	14%	7.6
AI Applications	10.2	8%	15.0	18%	2.7

Product	TTM revenue base	CAGR	TTM+5 revenue	TTM+5 margin	TTM+5 operating income
AI-native Marketing Services	10.4	12%	18.3	24%	4.4
Other / Apollo Go / residual	9.9	8%	14.5	-2%	-0.3
Baidu General Business total	103.0	6.0% blended	137.9	17.7%	24.4

Bull case rollup:

Product	TTM revenue base	CAGR	TTM+5 revenue	TTM+5 margin	TTM+5 operating income
Legacy traditional marketing	48.8	-1%	46.4	31%	14.4
AI Cloud Infra / GPU Cloud	23.7	25%	72.3	18%	13.0
AI Applications	10.2	15%	20.5	25%	5.1
AI-native Marketing Services	10.4	20%	25.9	32%	8.3
Other / Apollo Go / residual	9.9	18%	22.6	8%	1.8
Baidu General Business total	103.0	12.8% blended	187.8	22.7%	42.6

Arithmetic tie-out: each case sums product revenue to the Baidu General Business total within rounding. Bear: 25.8 + 38.2 + 10.7 + 13.3 + 9.9 = 97.9, shown as 97.8 after unrounded calculations. Base: 35.8 + 54.2 + 15.0 + 18.3 + 14.5 = 137.8, shown as 137.9 after unrounded calculations. Bull: 46.4 + 72.3 + 20.5 + 25.9 + 22.6 = 187.7, shown as 187.8 after unrounded calculations. Operating income is revenue multiplied by the product margin and then summed. The blended margin is total operating income divided by total revenue.

The base case endpoint is RMB137.9bn of revenue, RMB24.4bn of operating income, and a 17.7% operating margin. That is slightly below FY2024's reported BGB margin of 18.6% but on a larger and more AI-heavy revenue base. The bull case requires the AI stack to become a high-return platform business and for legacy search to stabilize. The bear case is not disaster; it is a plausible "AI growth without returns" outcome, where BGB revenue is roughly flat to down over five years and operating income recovers only to RMB5.1bn despite high cloud growth.

11. Key Risks And Wildcards

Bear risk - legacy search monetization breaks faster than modeled. Q1 2026 Legacy Business was down 29% and online marketing was down 22%. If AI-generated answers permanently reduce paid inventory or if advertisers shift budgets to e-commerce, short video, social, or private-domain channels, the -12% bear CAGR may still be too gentle. The trigger would be continued online marketing declines worse than 20% after AI search coverage stabilizes.

Bear risk - AI Cloud Infra becomes commodity capacity. The base case assumes 18% CAGR and 14% TTM+5 margin. That requires utilization, differentiated platform value, and pricing discipline. If Alibaba, Huawei, Tencent, Volcano Engine, operators, and local GPU-cloud providers add capacity aggressively, Baidu may grow revenue while earning low or zero operating margin. The Q3 2025 impairment makes this more than a theoretical risk.

Bear risk - capex and depreciation outrun demand. Management has signaled sustained AI investment density and multiple funding sources. The balance sheet can fund it, but funding capacity is not ROIC. If compute demand is lumpy or if purchased accelerators age quickly, operating income and free cash flow can disappoint even if revenue grows.

Base risk - AI Applications fail to monetize. Q1 2026 AI Applications revenue was flat despite product launches. The base case assumes 8% CAGR and 18% margin by TTM+5. If Wenku, Drive, Miaoda, MeDo, Famou, digital employees, and ERNIE-enabled products stay engagement features rather than paid workflows, base revenue and margin are too high.

Base risk - AI-native Marketing cannibalizes more than it expands. AI-native marketing grew 36% in Q1 2026, but legacy and online marketing fell sharply. If agents and digital humans merely re-price the same advertiser budget downward, reported mix improves while total marketing profit shrinks.

Bull wildcard - Kunlunxin changes the cost curve. A successful Kunlunxin spin-off and wider customer adoption could reduce dependence on scarce foreign accelerators, improve supply assurance, and give Baidu differentiated AI infrastructure economics. The model does not assign separate value to Kunlunxin because post-spin ownership and economics are not disclosed.

Bull wildcard - Apollo Go becomes visible revenue. More than 22m cumulative rides, city-level break-even commentary, RT6 cost claims, and Uber/Lyft partnerships are strategically meaningful. If Apollo Go produces disclosed revenue and positive unit economics across multiple cities, the residual line could be too conservative. Until then, it remains option value.

Regulatory risk - AI and autonomous driving. Generative AI, deep synthesis, algorithm governance, data security, and autonomous-driving approvals can constrain product design, deployment speed, content monetization, and international expansion. Compliance competence is a Baidu advantage, but regulation can still slow monetization.

Disclosure risk - management-account opacity. AI-powered Business, AI Cloud Infra, AI Applications, AI-native Marketing Services, Legacy Business, and Others are useful disclosures, but they are not audited reportable segments and have limited margin detail. The synthesis agent should not treat product-line margins as disclosed facts.

Final probability-weighted view: the base case is plausible but not yet proven. Baidu General Business has enough assets to recover, but it has not yet demonstrated that AI-led growth will produce search-era returns on capital. The five-year case should be monitored through four signals: online marketing decline moderation, AI Cloud Infra utilization and margin evidence, AI Applications revenue reacceleration, and Apollo Go revenue disclosure.

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	97.8	5.2%	5.1	30%
Base	137.9	17.7%	24.4	50%
Bull	187.8	22.7%	42.6	20%

[DATA GAP: FY2021-FY2022 current-taxonomy BGB segment values are not in QF; Apollo Go revenue is not separately disclosed; AI Cloud Infra, AI Applications, AI-native Marketing Services, Legacy Business, GPU Cloud, Kunlunxin, Wenku, Drive, Miaoda, MeDo, and Apollo Go product margins are not separately disclosed; backlog, retention, and utilization metrics are not disclosed. The AI Cloud Infra TTM allocation is an analytical estimate because the data package's annual AI Cloud Infra figure, Q1 2026 growth rate, and Q2 2025 "AI cloud" wording do not form a fully audited quarterly product table.]

Appendix B2 - iQIYI

iQIYI - Segment Deep Dive

Output owner: Subagent B - iQIYI segment

Company: Baidu, Inc.

Ticker: BIDU

Output path: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Baidu\appendix_B_iqiyi.md`

Stage 0 anchor enforced in this appendix:

- Today: 2026-05-28.
- Company fiscal year convention: Baidu's fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031.

All financial figures are RMB billions unless otherwise stated. The controlling historical source for Baidu reportable segment revenue and operating income is `data_package.md`, which itself ties to `quant_foundation.md`, Baidu's official Q2 2025 through Q1 2026 releases, and the 2025 Form 20-F. iQIYI's own official Q2 2025, Q3 2025, Q4/FY2025, and Q1 2026 results releases are used only as incremental context for the sub-lines inside the iQIYI segment, because the data package explicitly flags sparse iQIYI forward and product disclosure and says separate iQIYI filings may provide better evidence. Those iQIYI product lines are not used to override the Baidu segment totals. They are used because membership, online advertising, content distribution, other services, and content-cost discipline are economically central to the segment. [REVIEWER NOTE: Baidu data_package.md contains the reportable iQIYI segment totals but not the product-level iQIYI revenue or content-cost split; the product bridge below was live-checked against iQIYI official releases and remains subordinate to the Baidu segment totals.]

0. Segment Boundary And Taxonomy Note

iQIYI is one of Baidu's two reportable segments. The data package Section 1 defines Baidu's current reportable segments as Baidu General Business and iQIYI, with iQIYI producing, aggregating, and distributing professional and user video content as Baidu's consolidated online entertainment subsidiary. The reportable segment structure is stable for FY2023 through FY2025 in the Form 20-F segment table, but the data package warns that FY2021-FY2022 current-taxonomy reportable segment values are not included in QF. Therefore this appendix uses FY2023-FY2025 for annual segment dollar comparisons, Q2 2025 through Q1 2026 for TTM, and does not compare pre-FY2023 segment dollars to current-taxonomy iQIYI. The forward model starts from TTM ending March 31, 2026, not from FY2025.

1. What This Segment Actually Is

iQIYI is Baidu's long-form online video, entertainment, and streaming segment. It operates a subscription and advertising-supported video platform in China, with professional long-form content at the center of the business model. The customer is split across at least four economic groups. First, paying members subscribe for access to premium dramas, variety shows, films, animation, and other video content. Second, advertisers buy video inventory, sponsorship, and brand formats against iQIYI's audience and content slate. Third, external platforms or partners pay for content distribution, licensing, or content-related rights. Fourth, the platform earns smaller other revenue streams, including games, live broadcasting or adjacent entertainment services, IP monetization, and related commercial activities. Baidu's reportable segment table does not disclose those product lines, but iQIYI's own official releases do, and the product-line totals for Q2 2025 through Q1 2026 tie to the Baidu segment TTM revenue number within rounding.

The pricing model is therefore mixed rather than purely subscription. Membership revenue behaves like a recurring consumer entertainment product, but it is not SaaS. It depends on the perceived value of the content slate, consumer willingness to pay, the amount of pirated or free substitute entertainment, and the platform's ability to convert users into premium subscribers while limiting churn. Advertising revenue depends on audience engagement, macro advertising budgets, advertiser demand

for brand video, and competition from short-video and social platforms. Content distribution revenue is more episodic because licensing and distribution deals depend on title availability, windowing decisions, and counterparties' appetite for external content. Other revenue is a smaller basket that can grow or shrink depending on non-core entertainment products and platform experiments.

The go-to-market is primarily direct-to-consumer and platform-based. iQIYI does not sell through a classic enterprise sales motion. It attracts consumers through content, recommendations, mobile app distribution, connected-TV distribution, brand recognition, and cross-platform marketing. It sells ads to advertisers and agencies, and it can distribute content rights to other platforms or partners. Baidu is strategically relevant as a parent because Baidu has search, feed, AI, advertising relationships, cloud infrastructure, and capital resources, but the iQIYI segment is not automatically protected by Baidu's AI cloud or search economics. In the segment model, iQIYI must stand on its own as a video entertainment business with its own content economics.

That distinction matters for the Gideon framework. iQIYI is not a capital-light, high-return software segment simply because it sits inside Baidu. It is an entertainment platform with heavy content investment, volatile demand by title slate, strong substitutes, and modest recent margins. The segment can be valuable if management permanently shifts it from a growth-at-any-cost streaming platform into a disciplined, cash-generating content platform. It should not receive compounder credit unless the evidence supports durable positive operating income, recurring membership resilience, rational content-cost intensity, and stable advertising monetization despite competition from short-video and social platforms.

2. Current Economics

The controlling TTM base from data package Section 5 and QF P4 is iQIYI revenue of RMB26.330bn and operating income of negative RMB0.341bn, implying a reported TTM operating margin of negative 1.3%. The quarterly sequence is not encouraging: Q2 2025 revenue was RMB6.628bn with a negative 0.7% operating margin; Q3 2025 revenue was RMB6.682bn with a negative 1.8% operating margin; Q4 2025 revenue was RMB6.794bn with a positive 0.8% operating margin; and Q1 2026 revenue was RMB6.226bn with a negative 3.7% operating margin. The Q1 2026 revenue line was down 8% sequentially according to the data package's iQIYI commentary table, and the segment remains below FY2025 run rate.

Annual segment history shows the same pressure. Data package Section 3 gives iQIYI revenue of RMB31.873bn in FY2023, RMB29.225bn in FY2024, and RMB27.290bn in FY2025. Operating income fell from RMB2.989bn in FY2023 to RMB1.811bn in FY2024 and only RMB0.229bn in FY2025. The operating margin declined from 9.4% to 6.2% to 0.8%. That is a material deterioration in both growth and margin. The two-year revenue CAGR from FY2023 to FY2025 was about negative 7.5%, and operating income fell much faster than revenue. The TTM ended March 31, 2026 is worse than FY2025 because it includes Q1 2026 weakness and a TTM operating loss.

The product mix, using iQIYI official releases as incremental composition context, is still led by membership. For the four-quarter TTM window, membership services revenue was about RMB16.608bn, online advertising was about RMB5.106bn, content distribution was about RMB2.227bn, and other revenue was about RMB2.389bn. These four lines sum to about RMB26.331bn, which ties to the Baidu QF P4 iQIYI TTM revenue of RMB26.330bn within rounding. Membership is therefore roughly 63% of revenue, online advertising roughly 19%, content distribution roughly 8%, and other roughly 9%. The segment is not ad-only, and it is not pure subscription. The central economic question is whether membership can stabilize enough to fund disciplined content investment while advertising and distribution stop eroding.

Capital intensity is not best measured through physical capex at the iQIYI segment level. The heavier investment is content. iQIYI's own releases show content costs in each recent quarter, and TTM content costs were approximately RMB15.39bn across Q2 2025 through Q1 2026. Against TTM segment revenue of RMB26.33bn, that is a content-cost-to-revenue ratio of roughly 58%. [REVIEWER NOTE: content-cost dollars are from iQIYI official quarterly releases and are not included in data_package.md.] This is a high input-cost business even before marketing, R&D, general and administrative expense, technology infrastructure, and content amortization timing. The content asset does create repeat viewing, brand value, and IP optionality, but it is not the same as a software codebase that can be sold repeatedly at near-zero marginal cost. Margins can improve if the content slate is more efficient, if exclusive content is better monetized, if amortization is disciplined, and if the company avoids chasing low-ROI subscriber growth.

The current economics are therefore fragile but not irredeemable. The segment is around one-fifth of FY2025 consolidated Baidu revenue before eliminations, based on data package Section 1, so it is too large to ignore. But it contributes little current operating income and has been a drag on consolidated growth. A Gideon-quality assessment should treat iQIYI as a mature and pressured segment with potential for stabilization, not as a credible high-growth compounding engine.

3. Unit Economics

iQIYI's unit economics start with content. The platform must acquire, produce, license, promote, and amortize video content before it can sell either membership access or advertising. A strong title can drive paid member acquisition, retention, view time, brand advertising, and distribution revenue. A weak slate still creates cost, but the revenue response may not show up. That asymmetry is the reason content discipline matters more here than headline subscriber or view metrics.

Membership revenue has the best chance of recurring economics, but it is not guaranteed. The customer pays for a content bundle, not for a mission-critical workflow. Renewal depends on whether the next month or next season has content worth watching. Price increases are possible only when the perceived content value is high and substitutes are not too attractive. The main operating leverage in membership comes from spreading content cost over more paying members, improving retention, using recommendation and personalization to increase engagement, and packaging membership tiers to capture more willingness to pay. The downside is that if engagement weakens, iQIYI can respond only by spending more on content, discounting membership, or accepting churn.

Online advertising revenue has different unit economics. It should carry higher contribution margins than membership after the content and platform audience exist, because incremental ad impressions can be sold across existing traffic. But ad revenue is also cyclical and share-sensitive. Brand advertisers can shift budgets to short video, social commerce, live streaming, search, and other performance channels. Baidu's own broader online marketing revenue is declining sharply, according to data package Section 5, which is not proof that iQIYI's video ads must fall at the same rate, but it does show that Chinese digital advertising is highly contested. If iQIYI loses engagement share, advertising has operating leverage in the wrong direction because fixed content and platform costs remain.

Content distribution revenue can be profitable when the company licenses existing content with little incremental cost. It can also be lumpy and strategically ambiguous. A platform may license content to monetize a title outside the core member base, but too much licensing can reduce exclusivity and weaken the membership proposition. The line should not be modeled as a reliable compounder unless there is visible evidence of durable demand for iQIYI's content library. In the base case, I treat content distribution as a shrinking but modestly profitable line that helps monetize existing IP but does not become a primary growth engine.

Other revenue is the least transparent. It may include games, live broadcasting, IP-related products, and adjacent entertainment services. Because disclosure is limited and the line is not the core of the investment case, this appendix models it conservatively. If the line grows, it can help diversify the segment, but without clear product economics it does not deserve a premium multiple.

The historical segment margin decline shows that iQIYI has not yet proven durable high margin economics. Operating margin moved from 9.4% in FY2023 to 6.2% in FY2024, 0.8% in FY2025, and negative 1.3% on the TTM base. The deterioration appears consistent with revenue decline overwhelming content-cost and opex discipline. The margin bridge that matters is not simply cost cutting. Cutting content too hard can damage the membership and ad revenue base. The required operating model is more delicate: reduce low-return content spend, preserve enough hit rate to stabilize members, use advertising technology and sponsorship formats to monetize engagement, and keep fixed opex from expanding faster than revenue. That is doable, but it is not the kind of self-reinforcing flywheel that earns default compounder credit.

4. Competitive Dynamics

iQIYI competes in China's online entertainment attention market. Direct long-form video competitors include Tencent Video and Alibaba-linked Youku, while Bilibili competes for younger user time with a mix of professional, community, animation, gaming, and user-generated content. The more dangerous substitutes are not always direct long-form peers. Douyin, Kuaishou, short-video feeds, live streaming, social commerce, mobile games, free ad-supported video, pirated content, and other forms of digital entertainment all compete for the same consumer time and advertiser budgets. In practice, iQIYI competes on both content quality and attention share.

The competitive barrier in long-form video is not technology alone. Streaming video delivery is widely available. The barrier is a combination of brand, content library, production capability, audience data, recommendation quality, relationships with talent and studios, advertising relationships, and the ability to fund content slates through cycles. iQIYI has scale and brand, and it has demonstrated that it can produce or aggregate content that attracts paying users and advertisers. But scale does not eliminate rivalry. If competitors bid for the same content, produce rival originals, or use broader ecosystem subsidies, content returns can be competed away.

Pricing power is limited. A true pricing-power business can raise price with modest volume loss because customers have few alternatives and the product is mission-critical. iQIYI's consumer product is discretionary entertainment. It can raise membership ARPU if the content slate is strong, tiers are clear, and users perceive high value, but it cannot assume annual price increases detached from content quality. Advertising pricing power is also limited because advertisers have many channels and can measure relative performance. iQIYI may win premium sponsorship budgets for hit shows, but those are campaign-specific rather than structural.

Short-video substitution is the main structural risk. Long-form video can still command attention for drama, variety, sports, film, and premium entertainment. But short video trains users toward free, algorithmic, endless content with rapid feedback. It also gives advertisers performance-oriented formats and social-commerce paths that long-form video does not always match. If younger users shift more time away from long-form subscription products, iQIYI's membership base can shrink or require higher content spend to defend. If advertisers follow engagement to short video, iQIYI's ad revenue may underperform even if total China online ad spending grows.

There is a counterargument. Long-form premium content is not perfectly replaceable by short clips. Scripted drama, premium variety, anime, film, and certain live or event content can still generate appointment viewing and social discussion. For a platform that already has scale, a more rational industry structure can support profitability if companies stop chasing every incremental user with uneconomic content spend. The bull case depends less on explosive subscriber growth and more on content hit-rate discipline, better membership monetization, and an advertising recovery tied to premium video formats.

The base case assumes the market remains rational enough for iQIYI to restore mid-single-digit to high-single-digit operating margins, but not rational enough to restart strong growth. The bear case assumes short-video substitution and weak discretionary ad budgets push revenue lower faster than costs can be removed. The bull case assumes industry content spending remains disciplined, iQIYI's slate improves, members stabilize, and advertisers pay more for premium video inventory. None of these cases assumes a return to the early streaming growth era.

5. Moat At The Segment Level

iQIYI has assets, but the segment-level moat is moderate at best. The platform has brand recognition, user familiarity, content production capability, data, recommendation infrastructure, and a library of professional content. These assets matter. They make it hard for a new entrant to replicate iQIYI overnight. They also support a membership base that can be monetized more efficiently than a small platform with no content history.

The problem is that the moat does not obviously protect margins over a 5-to-10-year horizon. Content moats are expensive to maintain. A strong library can help, but new content drives a large portion of current engagement. Talent, production studios, distribution rights, and user attention are contestable. Competitors can bid for shows, create alternatives, or substitute formats entirely. Membership churn risk means iQIYI must keep investing just to stand still. Advertising budgets can move quickly when engagement shifts. This is not a network effect business where each additional user automatically makes the product much more valuable for all other users. It is closer to a scaled media platform with some data and brand advantages but ongoing reinvestment needs.

The most defensible element is content-cost discipline combined with scale. If the industry has learned from prior losses and rationalizes content budgets, the largest platforms can earn acceptable margins because they have enough subscribers and ad reach to monetize a slate. iQIYI's survival through the expensive streaming investment phase gives it a credible operating platform. The segment's FY2023 operating margin of 9.4% shows that positive margins are possible when revenue and cost discipline align. But the subsequent fall to 0.8% in FY2025 and negative TTM margin shows the moat is not self-executing.

Baidu ownership provides strategic relevance but not a pure moat. Baidu can provide search traffic, AI tools, cloud infrastructure, ad relationships, and balance-sheet support. Generative AI may reduce some production, recommendation, dubbing, marketing, or content localization costs over time. But those tools are not exclusive forever, and content platforms across the industry can use AI. The AI benefit should be treated as a cost-efficiency lever, not as a durable segment monopoly.

The Gideon compounder question is therefore harsh. iQIYI should not receive full compounder credit. In a Baidu sum-of-parts or segment build, it deserves credit for potential margin recovery and cash generation if content discipline persists. It does not deserve a high-growth, high-ROIC compounder multiple unless the next several years show stable or growing membership revenue, improving ad monetization, and operating margins sustainably above the high-single-digit level without sacrificing content relevance. The base case gives iQIYI partial stabilization credit, not compounder credit.

6. Historical Growth Rates

The table below reproduces the controlling reportable segment history from data package Section 3 and the TTM segment construction from data package Section 5 and QF P4. FY2021-FY2022 are intentionally excluded because data package Section 1 and Section 3 say current-taxonomy reportable segment histories are available only for FY2023-FY2025. Product-line composition is included from iQIYI official releases only where the line ties to the Baidu segment total; those product lines are not in the data package and are flagged as an incremental context layer rather than a controlling Baidu historical source.

Product / sub-segment	FY2023 rev	FY2024 rev	FY2025 rev	3-yr / available CAGR	Most recent YoY or trend	Data package cite
iQIYI reportable segment	31.873	29.225	27.290	N/A for true 3-yr; FY2023-FY2025 CAGR -7.5%	FY2025 YoY -6.6%; TTM revenue 26.330	data_package Section 3 iQIYI Revenue row; Section 5 TTM row
Membership services	[DATA GAP]	17.763	16.807	N/A; FY2024-FY2025 -5.4%	Q1 2026 membership revenue down 5% YoY in iQIYI release context	iQIYI Q4/FY2025 and Q1 2026 official releases; not in data_package product table
Online advertising services	[DATA GAP]	5.714	5.193	N/A; FY2024-FY2025 -9.1%	Q1 2026 ads down 7% YoY in iQIYI release context	iQIYI Q4/FY2025 and Q1 2026 official releases; not in data_package product table
Content distribution	[DATA GAP]	2.847	2.498	N/A; FY2024-FY2025 -12.3%	Q1 2026 content distribution down 43% YoY and sharply sequentially in iQIYI release context	iQIYI Q4/FY2025 and Q1 2026 official releases; not in data_package product table
Other revenue	[DATA GAP]	2.901	2.793	N/A; FY2024-FY2025 -3.7%	Q1 2026 other revenue down 49% YoY in iQIYI release context	iQIYI Q4/FY2025 and Q1 2026 official releases; not in data_package product table

Internal arithmetic checks: the reportable segment row ties exactly to the data package Section 3 values. FY2024 revenue of RMB29.225bn divided by FY2023 revenue of RMB31.873bn implies negative 8.3% YoY, matching the data package row. FY2025 revenue of RMB27.290bn divided by FY2024 revenue of RMB29.225bn implies negative 6.6% YoY, matching the data package row. The FY2023-FY2025 available-period CAGR is `(27.290 / 31.873)^(1/2) - 1`, or about negative 7.5%. The product rows are not back-solved from growth rates; they are directly disclosed by iQIYI's own official releases for FY2024 and FY2025, with FY2023 flagged as a data gap because the data package does not include that product split. The live official-source check used iQIYI's Q2 2025 release at `https://ir.iqiyi.com/news-releases/news-release-details/iqiyi-announces-second-quarter-2025-financial-results`, Q3 2025 release at `https://ir.iqiyi.com/news-releases/news-release-details/iqiyi-announces-third-quarter-2025-financial-results/`, Q4/FY2025 release at `https://ir.iqiyi.com/news-releases/news-release-details/iqiyi-announces-fourth-quarter-and-fiscal-year-2025-financial`, and Q1 2026 release at `https://ir.iqiyi.com/news-releases/news-release-details/iqiyi-announces-first-quarter-2026-financial-results/`.

The TTM product composition used for forward modeling is also arithmetically tied. Q2 2025 through Q1 2026 membership revenue sums to RMB16.608bn; online advertising sums to RMB5.106bn; content distribution sums to RMB2.227bn; and other revenue sums to RMB2.389bn. The four lines sum to RMB26.331bn, which reconciles to the QF P4 and data package Section 5 iQIYI TTM revenue of RMB26.330bn within rounding. This is the bridge that allows a product-level forward model without overriding the reportable segment total. [REVIEWER NOTE: this product bridge is not present in data_package.md; it is retained because it reconciles to the Baidu-controlled segment total and was checked against iQIYI's official Q2 2025, Q3 2025, Q4/FY2025, and Q1 2026 releases.]

7. Management Guidance

The data package's Baidu management-commentary section has sparse iQIYI guidance, which is itself an important modeling fact. Management is giving investors much richer detail on Baidu General Business AI lines than on iQIYI. That disclosure asymmetry argues against modeling iQIYI as a hidden growth engine.

Data package row	Source / speaker	Short quote or paraphrase	Interpretation
data_package Section 6 iQIYI row, Q1 2026 release	Baidu	iQIYI revenue was RMB6.2bn in Q1 2026, down 8% QoQ.	This is the freshest Baidu-level data point and it is negative. The base case should not begin with a growth acceleration assumption.
data_package Section 6 iQIYI row, Q3 2025 release	Baidu	iQIYI revenue was RMB6.7bn in Q3 2025, down 8% YoY.	Revenue pressure was already visible before Q1 2026 and is not a one-quarter issue.
data_package Section 6 iQIYI row, QF P4	Quant foundation	iQIYI TTM revenue was RMB26.330bn and TTM operating loss was RMB0.341bn.	The segment is not currently profitable on a TTM operating basis. Forward margin recovery must be justified, not assumed.
data_package Section 6 iQIYI row, Q4 2025 annual table	Baidu	FY2025 iQIYI revenue was RMB27.290bn and operating income RMB0.229bn.	FY2025 was barely profitable at the operating line, so the base case should underwrite modest margin repair rather than a return to peak margin.
data_package Section 9 flags row	Data package analyst flag	iQIYI forward guidance is sparse in Baidu calls.	The absence of detailed guidance is a data gap. The model relies on observable revenue mix, content-cost discipline, and conservative scenarios.

[DATA GAP: The data package does not provide paid subscriber counts, ARPU, churn, advertising sell-through, backlog, title-level ROI, or explicit iQIYI management targets through March 31, 2031. This appendix does not invent those metrics.]

8. Forward Growth Assumptions

The forward horizon is March 31, 2031, exactly five calendar years after the TTM end date. The model starts from TTM product revenue that ties to Baidu's reportable iQIYI TTM revenue. The product split is: membership RMB16.608bn, online advertising RMB5.106bn, content distribution RMB2.227bn, and other revenue RMB2.389bn. The forecast is deliberately conservative because the controlling segment history is declining and Baidu's own guidance is sparse.

Base case: revenue stabilizes but does not compound meaningfully. Membership declines at a negative 1% CAGR as paid-user and ARPU pressure offset better tiering and content efficiency. Advertising grows at 1% as video ad demand stabilizes but share pressure remains. Content distribution declines 3% as licensing is managed for economics rather than volume. Other revenue grows 2% from a small base. The base case produces TTM+5 revenue of RMB25.711bn, down slightly from the TTM base, with better profit coming from cost and margin repair rather than top-line growth.

Product	3-yr historical CAGR	Latest YoY / trend	Mgmt FY+1 guide	Base CAGR TTM to TTM+5y	Justification
Membership services	N/A; FY2024-FY2025 -5.4%	TTM line remains largest but segment revenue fell	No explicit guide in data package	-1.0%	The base case assumes content quality and tiering slow the decline, but discretionary streaming substitution prevents growth.
Online advertising services	N/A; FY2024-FY2025 -9.1%	Q3 2025 iQIYI segment revenue down 8% YoY; Baidu ad market pressured	No explicit guide in data package	1.0%	Advertising can recover slightly if video inventory remains premium, but short-video and broader ad competition cap growth.
Content distribution	N/A; FY2024-FY2025 -12.3%	TTM line is lumpy and smaller	No explicit guide in data package	-3.0%	Licensing remains useful but is managed for margin and exclusivity rather than growth.
Other revenue	N/A; FY2024-FY2025 -3.7%	Smaller non-core line	No explicit guide in data package	2.0%	Small adjacent products can grow modestly, but disclosure is too limited for an aggressive assumption.

Bear case: revenue continues to erode as short-video substitution, weak ad demand, and insufficient hit content pressure the platform. Membership declines 4% annually, ads decline 4%, content distribution declines 8%, and other revenue declines 3%. This case does not assume collapse. It assumes iQIYI remains a relevant platform but loses monetization share and cannot use content spend to reignite growth.

Product	3-yr historical CAGR	Latest YoY / trend	Mgmt FY+1 guide	Bear CAGR TTM to TTM+5y	Justification
Membership services	N/A; FY2024-FY2025 -5.4%	Segment TTM below FY2025 run rate	No explicit guide in data package	-4.0%	Paid entertainment churn and substitution keep pressuring the largest revenue line despite content spend.
Online advertising services	N/A; FY2024-FY2025 -9.1%	Broader Baidu online marketing down sharply in Q1 2026	No explicit guide in data package	-4.0%	Advertisers shift budgets to short-video, social, and performance channels faster than iQIYI can offset.
Content distribution	N/A; FY2024-FY2025 -12.3%	Lumpy and weaker in Q1 2026	No explicit guide in data package	-8.0%	External licensing demand weakens or iQIYI withholds rights to defend membership, reducing reported revenue.
Other revenue	N/A; FY2024-FY2025 -3.7%	Not a disclosed growth engine	No explicit guide in data package	-3.0%	Adjacent services do not scale enough to matter and shrink with the core platform.

Bull case: iQIYI does not return to hypergrowth, but it proves that the 2025 trough was a transition period. Membership grows 2% annually from better content slate, tiering, and retention. Advertising grows 4% as premium video sponsorship stabilizes and AI ad tools improve targeting and creative efficiency. Content distribution grows 1% as the library is monetized more effectively without diluting exclusivity. Other revenue grows 6% from a small base. This is a recovery case, not a heroic streaming boom.

Product	3-yr historical CAGR	Latest YoY / trend	Mgmt FY+1 guide	Bull CAGR TTM to TTM+5y	Justification
Membership services	N/A; FY2024-FY2025 -5.4%	Largest line at roughly 63% of TTM revenue	No explicit guide in data package	2.0%	Hit rate improves, churn moderates, and tiering lifts ARPU enough to create modest growth.
Online advertising services	N/A; FY2024-FY2025 -9.1%	Ads remain meaningful but pressured	No explicit guide in data package	4.0%	Premium long-form inventory regains some brand demand, helped by better ad products and sponsorship formats.
Content distribution	N/A; FY2024-FY2025 -12.3%	Lumpy line	No explicit guide in data package	1.0%	iQIYI monetizes library IP without overselling core exclusivity.
Other revenue	N/A; FY2024-FY2025 -3.7%	Small, opaque line	No explicit guide in data package	6.0%	Games, IP, and adjacent entertainment improve from a low base, but remain secondary.

The implied growth path is intentionally less optimistic than a simple mean reversion to FY2023 revenue. FY2023 revenue was RMB31.873bn. Even the bull case reaches only RMB30.087bn by March 31, 2031, still below FY2023. The base case reaches RMB25.711bn, slightly below the TTM base. That may look harsh, but it matches the evidence: annual revenue has fallen for two years, Q1 2026 was weak, and Baidu provides limited forward detail on the segment.

9. Forward Operating Margin Assumptions

Current TTM reported operating margin is negative 1.3%, from data package Section 5 and QF P4. FY2025 operating margin was 0.8%, FY2024 was 6.2%, and FY2023 was 9.4%. The forward cases therefore need to explain any margin above zero. The key mechanism is content-cost discipline. TTM content costs of about RMB15.39bn consume roughly 58% of revenue. If content costs stay near that ratio and revenue declines, operating margin remains weak. If management can keep content costs lower relative to revenue while preserving enough hit rate, the segment can recover mid-single-digit to low-double-digit margins.

Because product-level operating margins are not disclosed in the data package, this appendix uses explicit product-level contribution-style margin assumptions to compute a segment rollup. These are not disclosed margins. They are modeling assumptions designed to make the segment margin reconstructable. Membership is modeled as the main profit pool once content cost is normalized. Advertising receives the highest product margin because incremental ads monetize existing engagement. Content distribution is low margin in bear/base and modest in bull because licensing can be profitable but is lumpy. Other revenue is low margin due to opacity.

Product	TTM revenue	Current margin evidence	Bear TTM+5 margin	Base TTM+5 margin	Bull TTM+5 margin	Margin mechanism
Membership services	16.608	Segment TTM margin -1.3%; content cost ratio about 58%	3.0%	7.0%	11.0%	Better retention and content amortization drive most recovery; bear case assumes weak slate limits leverage.
Online advertising services	5.106	Segment ads not separately margined	12.0%	18.0%	24.0%	Ads monetize existing traffic; margin depends on engagement share and sales efficiency.
Content distribution	2.227	No disclosed product margin	-2.0%	2.0%	5.0%	Licensing economics improve only if rights are monetized without hurting membership.
Other revenue	2.389	No disclosed product margin	-5.0%	2.0%	6.0%	Opaque adjacent activities stay low margin unless scale appears.
Segment blended	26.330	TTM OI -0.341; margin -1.3%	3.6%	8.4%	12.7%	Blended margin is revenue-weighted from product assumptions.

The base margin of 8.4% is above current TTM but below a heroic media-platform target. It is close to the FY2023 margin of 9.4% but with lower revenue, implying that the company recovers operating discipline rather than recapturing historical scale. The bull margin of 12.7% requires both product mix and content-cost discipline. It is possible but not the default because the latest TTM is loss-making. The bear margin of 3.6% gives credit for cost action even in a declining revenue case; without that credit, the bear case would be an operating-loss segment.

For the consolidated Baidu model, the most important implication is that iQIYI's earnings contribution is relatively small even when margins recover. In the base case, the segment contributes RMB2.163bn of operating income in March 2031. That is meaningful relative to current iQIYI profitability, but it will not drive Baidu's overall investment case if Baidu General Business does not work. iQIYI is a stabilizer or drag, not the engine.

10. Segment Rollup

The rollup below starts from the TTM product revenue bridge and compounds each product line for exactly five calendar years to March 31, 2031. Product margins are then applied to compute operating income. Totals reconcile to the case-level segment revenue and operating income within rounding.

Case	Product	TTM revenue	CAGR to Mar. 31, 2031	TTM+5y revenue	TTM+5y op margin	TTM+5y op income
Bear	Membership services	16.608	-4.0%	13.542	3.0%	0.406
Bear	Online advertising services	5.106	-4.0%	4.163	12.0%	0.500
Bear	Content distribution	2.227	-8.0%	1.468	-2.0%	-0.029
Bear	Other revenue	2.389	-3.0%	2.051	-5.0%	-0.103
Bear	Segment total	26.330	-4.2% blended	21.225	3.6%	0.774
Base	Membership services	16.608	-1.0%	15.794	7.0%	1.106
Base	Online advertising services	5.106	1.0%	5.367	18.0%	0.966
Base	Content distribution	2.227	-3.0%	1.913	2.0%	0.038
Base	Other revenue	2.389	2.0%	2.638	2.0%	0.053
Base	Segment total	26.330	-0.5% blended	25.711	8.4%	2.163
Bull	Membership services	16.608	2.0%	18.337	11.0%	2.017
Bull	Online advertising services	5.106	4.0%	6.212	24.0%	1.491
Bull	Content distribution	2.227	1.0%	2.341	5.0%	0.117
Bull	Other revenue	2.389	6.0%	3.197	6.0%	0.192
Bull	Segment total	26.330	2.7% blended	30.087	12.7%	3.817

The arithmetic check is straightforward. In the bear case, product revenue totals RMB13.542bn + RMB4.163bn + RMB1.468bn + RMB2.051bn = RMB21.225bn, and product operating income totals RMB0.774bn. In the base case, product

revenue totals RMB25.711bn and product operating income totals RMB2.163bn. In the bull case, product revenue totals RMB30.087bn and product operating income totals RMB3.817bn. The blended operating margins are the operating income totals divided by the revenue totals, or 3.6%, 8.4%, and 12.7%.

These outputs are intentionally not aggressive. The base case does not restore FY2023 revenue, despite assuming margin recovery. The bull case barely exceeds FY2024 revenue by March 2031 and remains below FY2023. This is the right calibration for a segment whose latest Baidu-controlled TTM revenue is declining and loss-making. The upside case is not that iQIYI becomes a massive growth segment. The upside case is that it becomes a disciplined cash contributor again.

11. Key Risks And Wildcards

- Bear risk - short-video substitution accelerates. If Douyin, Kuaishou, Bilibili, games, and social commerce keep taking time and ad share, iQIYI may have to choose between spending more on content or accepting member and advertiser decline. This risk primarily affects membership and online advertising revenue.
- Bear risk - content hit rate deteriorates. A few weak slate cycles can raise churn, lower watch time, and reduce advertiser interest. Because content costs are committed ahead of revenue realization, a poor slate can compress margins quickly.
- Bear risk - cost cuts damage the product. Content discipline is necessary, but underinvestment can create a negative loop: fewer compelling titles, weaker engagement, lower membership value, weaker advertising, and then more pressure to cut.
- Base risk - revenue stabilization takes longer than cost stabilization. The base case assumes margin recovery even with slight revenue decline. If content costs cannot be flexed without hurting the platform, the base margin may be too high.
- Bull wildcard - AI improves content productivity. Baidu and iQIYI may use generative AI for script development, localization, marketing materials, recommendations, editing, dubbing, or production workflow. If these tools lower costs without reducing quality, margin could exceed the base case.
- Bull wildcard - industry rationality persists. If major long-form competitors focus on profitability rather than subscriber land-grabs, the whole sector may experience better content ROI, less aggressive bidding, and more sustainable margins.
- Strategic wildcard - iQIYI's role inside Baidu changes. Baidu could continue holding iQIYI as a consolidated entertainment asset, pursue strategic partnerships, reduce exposure, or use AI and search distribution to support the platform. Any change would affect sum-of-parts valuation but is not assumed in the base case.
- Disclosure risk - product-level data remain limited. The data package does not provide paid members, ARPU, churn, ad load, or title-level ROI. That forces the model to rely on revenue and cost outcomes rather than unit-level proof. The peer reviewer should treat this as a monitoring flag.

Segment Summary

Case	Segment TTM+5y Revenue	Segment TTM+5y Op Margin	Segment TTM+5y Op Income	Probability
Bear	21.225	3.6%	0.774	30%
Base	25.711	8.4%	2.163	50%
Bull	30.087	12.7%	3.817	20%

The probability-weighted outcome is approximately RMB25.24bn of revenue and RMB2.08bn of operating income at the March 31, 2031 horizon. That is close to the base case because the upside and downside are both constrained by the segment's maturity. The segment does not deserve compounder credit on its own. It deserves stabilization credit if management sustains content-cost discipline and keeps membership from eroding too quickly. For Baidu's consolidated

thesis, iQIYI is best viewed as a potential earnings repair line and a strategic media asset, not as the source of long-duration compounding.

Appendix S - Synthesis (Combined Earnings Model)

Baidu, Inc. - Synthesis (Combined Earnings Model)

1. Anchors

This appendix is the combined earnings model for Baidu, Inc. It uses the reviewed segment appendices as controlling for segment case outputs and uses the data package and quantitative foundation for consolidated historicals, TTM construction, share count, balance sheet, and capital allocation. All financial statement amounts are RMB billions unless otherwise stated. Per-ADS valuation math uses USD because BIDU ADSs trade in USD on Nasdaq.

Anchor	Value	Source or treatment
Today	2026-05-28	Stage 0 instruction
Company fiscal year end	December 31	Data package Section 5
Most recently reported quarter	Q1 2026, period ended March 31, 2026	Data package Section 5 and QF P4
TTM quarters	Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026	Stage 0 and QF P4
TTM end date	2026-03-31	Stage 0 and QF P4
Forward horizon	2031-03-31	TTM end plus exactly 5.0 calendar years
Compounding span	5.0 years	No FY-1 plus 5 shortcut
Current ADS price	USD 130.84	Live FMP quote for BIDU
USD/CNY	6.7791	Live FMP quote for USDCNY
TTM diluted ADS count	345.5 million	QF P6, 2,764 million diluted ordinary shares divided by 8

The P/E 15 test is performed on modeled USD EPS per ADS. The model first builds RMB operating income and normalized net income attributable to Baidu, divides by diluted ADS count, and then converts RMB EPS to USD using USD/CNY 6.7791. The required EPS at today's price is USD8.72 per ADS, equal to RMB59.13 per ADS. This is the hurdle the base case must clear. The bull case does not rescue a failed base case under Gideon rules.

The TTM base is messy but clear. Reported TTM revenue is RMB128.702 billion and reported TTM operating income is negative RMB7.138 billion. That loss is dominated by the Q3 2025 RMB16.190 billion long-lived asset impairment. QF provides an ex-impairment TTM operating income marker of RMB9.052 billion, but also warns not to treat it as GAAP. This synthesis uses reported historicals for tie-outs and then builds forward operating cases that explicitly normalize the impairment rather than hiding it.

Management and moat gates also matter. The management appendix gives Baidu a FAIL because of founder voting control, VIE dependence, compensation opacity, FY2025 negative FCF, the impairment, and insufficient proof that AI infrastructure and Apollo Go will earn high returns. The moat appendix gives Baidu a YELLOW because the asset base is real, but the new AI-led economics are not yet proven. The earnings model can show valuation room; it cannot by itself convert those gates into a Gideon BUY.

2. Segment-Level Forward Assumptions

The reviewed segment appendices control this section. Baidu General Business is the economic engine. iQIYI is modeled as a mature, pressured, potentially stabilizing media segment. Eliminations are handled in the consolidated build, not inside either segment row.

Segment	TTM revenue	Bear TTM+5y rev	Base TTM+5y rev	Bull TTM+5y rev	Bear OI margin	Base OI margin	Bull OI margin	Source
Baidu General Business	103.023	97.800	137.900	187.800	5.2%	17.7%	22.7%	appendix_B_baidu_general_business Sections 8 to 10
iQIYI	26.330	21.225	25.711	30.087	3.6%	8.4%	12.7%	appendix_B_iqiyi Sections 8 to 10

Baidu General Business is built from analytical product lines that sum back to the audited TTM segment base: legacy traditional marketing, AI Cloud Infra / GPU Cloud, AI Applications, AI-native Marketing Services, and Other / Apollo Go / residual. The base case assumes legacy traditional marketing declines at a 6% CAGR, AI Cloud Infra grows at 18%, AI

Applications grow at 8%, AI-native Marketing Services grow at 12%, and Other / Apollo Go / residual grows at 8%. The base case is therefore not a claim that legacy search returns to the old model. It is a claim that AI infrastructure and AI-native tools more than offset a shrinking ad base.

iQIYI is deliberately less important to the consolidated thesis. Its base case revenue declines slightly from the TTM base, from RMB26.330 billion to RMB25.711 billion, while operating margin recovers to 8.4%. That is a cost and content-discipline case, not a growth case. Even in bull, iQIYI reaches only RMB30.087 billion of revenue, below its FY2023 reportable segment revenue of RMB31.873 billion. This is the right treatment for a segment with declining recent revenue, sparse forward guidance in Baidu calls, and negative TTM operating income.

3. Combined Revenue Build

The consolidated revenue build adds the two reviewed reportable segment outputs and subtracts intersegment eliminations. QF P4 shows TTM eliminations of negative RMB0.651 billion. The data package shows FY2023 to FY2025 annual eliminations of roughly negative RMB0.7 billion. I carry eliminations as a small negative line: negative RMB0.65 billion in bear, negative RMB0.70 billion in base, and negative RMB0.75 billion in bull. The amount is immaterial to valuation but necessary for a clean segment-to-consolidated bridge.

Line	Bear	Base	Bull
Baidu General Business TTM+5y revenue	97.800	137.900	187.800
iQIYI TTM+5y revenue	21.225	25.711	30.087
Sum of segment TTM+5y revenue	119.025	163.611	217.887
Corporate eliminations	-0.650	-0.700	-0.750
Combined TTM+5y revenue	118.375	162.911	217.137
Implied TTM to TTM+5y revenue CAGR	-1.7%	4.8%	11.0%

The base revenue case is not heroic at the consolidated level. RMB162.911 billion at March 31, 2031 is a 4.8% five-year CAGR from TTM revenue of RMB128.702 billion. The engine underneath that number is much more dramatic than the consolidated CAGR suggests: legacy marketing declines, AI infrastructure grows strongly, AI-native marketing grows, iQIYI stabilizes, and eliminations remain small. The consolidated line therefore tests whether Baidu can rotate the revenue mix without destroying margins and capital efficiency.

The bear case is a plausible failed-transition case rather than a collapse case. Consolidated revenue falls to RMB118.375 billion, a negative 1.7% CAGR, because AI Cloud Infra growth is not enough to offset legacy advertising pressure and iQIYI erosion. The bull case reaches RMB217.137 billion, an 11.0% CAGR, and requires a far stronger AI Cloud, AI application, AI-native marketing, and Apollo outcome than the current evidence proves.

4. Combined Operating Income Build

QF P4 shows that reportable segment operating income plus eliminations ties exactly to consolidated operating income for the TTM window. There is no separate unallocated corporate expense line in the data package beyond the reportable segment and elimination structure. I therefore do not invent a new corporate expense layer. I carry a tiny elimination OI line based on the historical elimination OI range, then use the reviewed segment OI outputs.

Line	Bear	Base	Bull
Baidu General Business TTM+5y OI	5.100	24.400	42.600
iQIYI TTM+5y OI	0.774	2.163	3.817
Sum of segment TTM+5y OI	5.874	26.563	46.417
Eliminations and unallocated corporate expense	-0.010	-0.010	-0.020
Combined TTM+5y OI	5.864	26.553	46.397
Implied OI margin	5.0%	16.3%	21.4%

The base case operating margin of 16.3% is close to the FY2023 and FY2024 consolidated margin range, but it is earned on a different revenue mix. That is an important distinction. The model does not assume old search economics simply return. It assumes AI Cloud Infra utilization, AI-native marketing, AI applications, and cost discipline offset the lower margin nature of

infrastructure and the erosion of legacy advertising. The base case is achievable only if management proves that AI-powered revenue carries durable operating profit, not just growth.

The bear case has revenue of RMB118.375 billion and OI of only RMB5.864 billion. This is the key downside: Baidu can grow AI Cloud Infra and still fail shareholders if the growth is capital intensive, price competitive, or margin dilutive. The bull case has OI of RMB46.397 billion and a 21.4% margin. That requires a strong full-stack AI outcome, higher AI application monetization, better GPU Cloud economics, Apollo or residual contribution, and a stable iQIYI margin profile. It is possible, but it should not be the underwriting case.

5. Net Income And EPS Build

The net income build is normalized. It starts with operating income, adds conservative net interest and other income, applies a tax rate, and arrives at normalized net income attributable to Baidu. Historical non-operating income has been volatile because Baidu carries large investments and financial assets. The model gives some credit for the balance sheet but does not capitalize fair-value gains. Net interest and other income are RMB0.5 billion in bear, RMB1.5 billion in base, and RMB2.5 billion in bull. Those amounts are modest relative to Baidu's company-defined total cash and investments of RMB279.3 billion at Q1 2026.

Line	Bear	Base	Bull
Combined TTM+5y OI	5.864	26.553	46.397
Net interest income and normalized other income	0.500	1.500	2.500
Pre-tax income	6.364	28.053	48.897
Tax rate assumed	18.0%	18.0%	20.0%
Normalized net income attributable to Baidu	5.218	23.003	39.118
Diluted ADS count at TTM+5y	358.4	342.6	324.8
EPS per ADS, RMB	14.56	67.15	120.44
EPS per ADS, USD	2.15	9.91	17.77

The base case produces RMB23.003 billion of normalized net income attributable to Baidu and USD9.91 of EPS per ADS. That clears the required USD8.72 EPS for a P/E of 15 at the current USD130.84 ADS price. The cushion is not large enough to ignore management and moat risk. It is a mechanical valuation pass with a 13.6% cushion, not a full investment pass.

The bear case clearly fails the valuation gate. USD2.15 of EPS capitalized at 15x is worth USD32.30 per ADS, far below today's price. That downside case is not built on insolvency or a China macro depression. It is built on the more direct risk that Baidu's AI transition produces revenue but not enough profit or per-share compounding. The bull case, by contrast, produces USD17.77 of EPS and a 15x value of USD266.49. The spread between bear and bull is wide because AI infrastructure margin, legacy ad stabilization, and buyback execution are all nonlinear.

6. Share Count Path

The starting share count is Q1 2026 diluted ordinary shares of 2,764 million, or 345.5 million ADS equivalents at 8 ordinary shares per ADS. Data package Section 7 shows buybacks of RMB7.581 billion in FY2021, RMB1.925 billion in FY2022, RMB4.764 billion in FY2023, RMB6.324 billion in FY2024, and RMB5.385 billion in FY2025. Baidu also announced a new USD5.0 billion buyback program and repurchased USD172 million in Q1 2026.

SBC is imperfectly disclosed in the source package. Live FMP cash flow shows stock-based compensation of RMB4.784 billion in FY2024, RMB6.345 billion in FY2023, RMB6.788 billion in FY2022, and RMB7.056 billion in FY2021, while FY2025 appears as zero in the FMP field despite ongoing equity incentive plans. I therefore use an ADS issuance estimate rather than treating the FY2025 FMP zero as economic reality. Base SBC issuance is 4.0 million ADS per year, bear is 4.5 million, and bull is 3.5 million. Shares retired use the current USD130.84 ADS price as the average repurchase price. This is conservative for a program that may buy at lower prices, but it avoids assuming price-sensitive execution that management has not yet proven.

Case	Year	Starting ADS count	Buyback USD bn	Avg ADS price	Shares retired	SBC issuance	Ending ADS count
Bear	1	345.5	0.25	130.84	1.9	4.5	348.1
Bear	2	348.1	0.25	130.84	1.9	4.5	350.7

Case	Year	Starting ADS count	Buyback USD bn	Avg ADS price	Shares retired	SBC issuance	Ending ADS count
Bear	3	350.7	0.25	130.84	1.9	4.5	353.3
Bear	4	353.3	0.25	130.84	1.9	4.5	355.9
Bear	5	355.9	0.25	130.84	1.9	4.5	358.4
Base	1	345.5	0.60	130.84	4.6	4.0	344.9
Base	2	344.9	0.60	130.84	4.6	4.0	344.3
Base	3	344.3	0.60	130.84	4.6	4.0	343.7
Base	4	343.7	0.60	130.84	4.6	4.0	343.2
Base	5	343.2	0.60	130.84	4.6	4.0	342.6
Bull	1	345.5	1.00	130.84	7.6	3.5	341.4
Bull	2	341.4	1.00	130.84	7.6	3.5	337.2
Bull	3	337.2	1.00	130.84	7.6	3.5	333.1
Bull	4	333.1	1.00	130.84	7.6	3.5	328.9
Bull	5	328.9	1.00	130.84	7.6	3.5	324.8

The base path reduces diluted ADS count by only 2.9 million over five years. That is modest given the USD5.0 billion authorization, because the model assumes buybacks run at USD0.6 billion per year and are partly offset by SBC. The bull path assumes faster execution and lower SBC. The bear path assumes the authorization is not fully used and dilution more than offsets repurchases. This approach prevents the model from using buybacks as an unearned EPS lever.

7. P/E 15 Test

Case	EPS at TTM+5y, USD	EPS x 15	Current ADS price	Cushion	Pass?
Bear	2.15	32.30	130.84	-75.3%	No
Base	9.91	148.61	130.84	13.6%	Yes
Bull	17.77	266.49	130.84	103.7%	Yes

The base case clears the mechanical P/E 15 valuation gate. The required EPS is USD8.72, and the base model produces USD9.91. That is a pass, but it is a narrow pass for an issuer with a management FAIL and moat YELLOW. A 13.6% cushion can disappear if AI Cloud Infra margin is a few hundred basis points weaker, if buybacks are slower, if the tax rate is higher, or if legacy marketing declines faster than expected.

The verdict implication is therefore not automatic. Under the Gideon framework, price is necessary but not sufficient. A company with a management gate FAIL does not become a high-conviction compounder merely because a base case clears 15x FY+5 EPS. The right synthesis language is: base and bull clear the P/E 15 arithmetic test; bear fails; management and moat gates keep the overall conclusion from mechanically upgrading.

8. Reflexivity Check

The combined model must tie back to reported TTM financials before compounding forward. QF P4 gives an exact reportable-segment tie-out for TTM revenue and operating income. Baidu General Business TTM revenue is RMB103.023 billion, iQIYI TTM revenue is RMB26.330 billion, and eliminations are negative RMB0.651 billion. Those three rows equal consolidated TTM revenue of RMB128.702 billion. For operating income, BGB is negative RMB6.792 billion, iQIYI is negative RMB0.341 billion, and eliminations are negative RMB0.005 billion. Those equal consolidated TTM operating income of negative RMB7.138 billion.

Tie-out item	Segment sum	Consolidated reported	Difference	Difference %	Result
TTM revenue	128.702	128.702	0.000	0.0%	Pass
TTM operating income, reported	-7.138	-7.138	0.000	0.0%	Pass
FY2025 revenue	129.079	129.079	0.000	0.0%	Pass
FY2025 operating income	-5.823	-5.823	0.000	0.0%	Pass

The reflexivity risk is not an arithmetic gap. It is economic normalization. The segment base ties perfectly to reported TTM, but reported TTM OI is distorted by the RMB16.190 billion impairment. The base case does not compound the negative reported margin. It starts from the reviewed segment appendices' product-level assumptions, which normalize the impairment through

future revenue mix and margin recovery. That is acceptable only because the impairment is explicitly identified and because the base case margin does not exceed the historical FY2023 to FY2024 consolidated margin range.

9. In-Progress FY Reconciliation

The model does not treat FY2026 as complete. Stage 0 anchors to TTM ending March 31, 2026. Q1 2026 is the first quarter of the current fiscal year, and it is included in the TTM base. The first-forward-year revenue path should not begin far above the most recent four-quarter run-rate.

The base model's first-forward-year revenue implied by the segment appendices is approximately RMB132.7 billion after eliminations: BGB around RMB107.2 billion, iQIYI around RMB26.2 billion, and eliminations around negative RMB0.66 billion. That is 3.1% above TTM revenue of RMB128.702 billion, within the 10% recency band. For operating income, reported TTM is not a useful run-rate because of the impairment. The relevant normalized comparison is QF's ex-impairment TTM OI marker of RMB9.052 billion. The first-forward-year normalized operating income implied by the base path is approximately RMB9.7 billion, about 7% above that marker. The model therefore does not jump immediately to the horizon margin.

Reconciliation item	TTM or normalized base	First-forward-year base	Difference	Result
Revenue	128.702	132.700	3.1%	Pass
Operating income, reported	-7.138	N/A	N/A	Not used because impairment distorts base
Operating income, ex-impairment reference	9.052	9.700	7.2%	Pass with normalization caveat

This matters because a common modeling error is to let a five-year endpoint quietly imply an impossible first year. That is not happening here. The base case starts with modest revenue growth and only gradual margin recovery. The risk is not an impossible Year 1; the risk is that the later-year AI margin recovery never arrives.

10. Sensitivity

The sensitivity table holds the base case constant except for one changed variable at a time. The base case EPS is USD9.91 per ADS. The purpose is to identify which assumptions drive the P/E 15 conclusion.

Variable changed	Downside case EPS	Upside case EPS	EPS swing versus base	Interpretation
BGB revenue CAGR plus or minus 200 bps	9.13	10.75	-0.78 / +0.84	The BGB growth path matters because BGB is most of consolidated revenue
iQIYI TTM+5y OI margin plus or minus 200 bps	9.72	10.09	-0.18 / +0.18	iQIYI margin matters, but it is not the thesis driver
TTM+5y ADS count plus or minus 5%	10.43	9.44	+0.52 / -0.47	Buybacks help but do not replace operating execution
Tax rate plus or minus 300 bps	10.27	9.54	+0.36 / -0.36	Tax is meaningful but secondary

The two decisive variables are BGB growth quality and BGB margin quality, especially AI Cloud Infra and AI-native marketing. iQIYI is too small to carry the case. Share count can shift the cushion by several percentage points, but it does not turn a bad operating outcome into a good investment. The kill criteria should therefore focus on online marketing decline, AI Cloud Infra margin / utilization, AI Applications revenue, and free cash flow conversion rather than on headline buyback authorization alone.

11. Combined Earnings Summary

Case	Revenue	OI	OI margin	NI	EPS USD	Probability	EPS x 15	vs. USD130.84
Bear	118.375	5.864	5.0%	5.218	2.15	30%	32.30	-75.3%
Base	162.911	26.553	16.3%	23.003	9.91	50%	148.61	13.6%
Bull	217.137	46.397	21.4%	39.118	17.77	20%	266.49	103.7%
Probability-weighted EPS	N/A	N/A	N/A	N/A	9.16	100%	137.40	5.0%

The probability weights are 30% bear, 50% base, and 20% bull. I do not use uniform thirds because the recent evidence is mixed: AI-powered Business is now a majority of BGB revenue and BGB returned to positive YoY growth in Q1 2026, but legacy online marketing declined sharply, AI Applications were flat, iQIYI remains weak, and the management gate is FAIL. The base case gets the highest weight because the reviewed segment appendices support a plausible transition path. The bear case gets a substantial 30% because the transition can fail economically without failing technologically. The bull case gets only 20% because it needs multiple unproven profit pools to work at once.

The probability-weighted EPS of USD9.16 technically clears the required USD8.72, but the weighted cushion is only about 5.0%. That is too thin to override gate problems. The base case is the right valuation test under the ER2 process; the probability-weighted line is a diagnostic. Both say the ADS is not obviously too expensive if the base transition works. Neither says the company has already earned Gideon-quality confidence.

One additional interpretation point is important for later assembly. The synthesis is more favorable than the management appendix because it asks a narrower question: what would Baidu earn if the reviewed segment cases occur? The management appendix asks whether an outside minority shareholder should trust the team, structure, disclosure, and capital allocation record enough to underwrite that path. Those are different tests. The model can clear while the stock still fails the full Gideon bar. That distinction should remain visible in the main narrative, because otherwise the P/E 15 table could be misread as a standalone BUY signal.

12. Tie-Out Checks

Check	Test	Result	Status
1	Reported-financial tie-out for TTM and latest completed FY	TTM revenue and OI tie exactly; FY2025 revenue and OI tie exactly	Pass
2	NI divided by shares equals EPS	Bear RMB5.218bn / 358.4m = RMB14.56; base RMB23.003bn / 342.6m = RMB67.15; bull RMB39.118bn / 324.8m = RMB120.44	Pass
3	Segment sum tie-out at horizon	Segment revenue less eliminations equals combined revenue in all cases	Pass
4	Product-to-segment rollup	Reviewed BGB and iQIYI appendices show product sums tie to segment totals within rounding	Pass
5	Weighted margin check	Reviewed appendices compute blended segment margin from product revenue and margin assumptions	Pass
6	Share count path	Ending ADS count is derived from five annual buyback and SBC steps, not assumed	Pass
7	Growth plausibility	BGB base exceeds recent reportable-segment growth because the mix shifts from legacy ads to disclosed AI lines; segment appendix gives explicit justification. iQIYI base remains conservative	Pass with caveat
8	Historical arithmetic	Segment appendix rollups use TTM revenue times one plus CAGR to the fifth power, with five calendar years exactly	Pass
9	Recency anchor	First-forward-year base revenue is about 3.1% above TTM and first-year normalized OI is about 7.2% above ex-impairment TTM	Pass
10	Capex and capital-allocation consistency	Management appendix says AI investment intensity remains elevated; model does not assume full buyback execution or low-capex free lunch	Pass
11	Currency and P/E gate arithmetic	USD price, RMB EPS, USD/CNY conversion, required EPS, and cushion reconcile	Pass

All 11 tie-out checks pass. The important caveat is Check 7: the consolidated base case depends on a real mix transition inside Baidu General Business. The arithmetic is clean, but the economic burden is high. AI Cloud Infra must grow without

becoming commodity capacity, AI-native marketing must expand advertiser outcomes rather than merely cannibalize legacy ad spend, AI Applications must reaccelerate from Q1 2026's flat revenue, and management must show free cash flow conversion despite ongoing AI investment.

The synthesis conclusion is therefore deliberately split. On pure model math, base and bull clear the P/E 15 test, bear fails, and the base cushion is 13.6%. On ER2 gate logic, management is FAIL and moat is YELLOW. The combined output should feed a PASS or, at most, a watchlist-style conclusion unless a later orchestrator explicitly decides that the valuation cushion plus monitoring conditions justify further work. A narrow valuation pass is not the same thing as a Gideon compounder pass.

Appendix CS - Compounder Score

Baidu, Inc. - Diagnostic Compounder Score

Output owner: Subagent CS (Compounder Scorer)

Company: Baidu, Inc.

Ticker: BIDU

Output path: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Baidu\appendix_compounder_score.md`

Stage 0 anchor from the ER2 source package: TTM ending March 31, 2026; forward horizon March 31, 2031. Baidu's fiscal year ends December 31. The source package's Stage 0 date is 2026-05-28. This CS pass refreshed the live FMP quote for BIDU and USDCNY during the local 2026-05-29 session, using FMP only for the current market quote and FX quote; the verified ER2 files remain the controlling source for historical financials, segment values, management, moat, and synthesis.

1. Executive Verdict

Baidu scores **38 / 100** on the diagnostic compounder rubric: **35 / 80** for Business Quality and **3 / 20** for Valuation / 20% Return Underwriting. The score-implied classification is **Reject** under this diagnostic rubric. This is not the ER2 BUY/WATCH/PASS verdict, and it does not mechanically override the synthesis appendix. It is a stricter compounder lens: does the evidence support a high-return, durable, minority-shareholder-friendly business that can plausibly deliver at least 20% annualized shareholder returns without terminal multiple expansion?

The evidence does not support that conclusion today. Baidu has valuable assets: Chinese search distribution, intent data, a domestic AI stack, AI Cloud Infra growth, ERNIE/PaddlePaddle tooling, Apollo Go operating data, iQIYI scale, and a very large cash and investment balance. The problem is that the observable financial record is not the record of a proven compounder. FY2021-FY2025 revenue grew only about 0.9% annually from the available annual table. Reported ROIC was low in every year and negative in FY2025. FY2025 free cash flow was negative RMB16.430 billion. The TTM to March 31, 2026 showed reported operating income of negative RMB7.138 billion, distorted by the RMB16.190 billion Q3 2025 impairment, but the normalized ex-impairment marker still does not prove high incremental returns on the AI investment base.

The ER2 synthesis is more constructive on the five-year earnings bridge than the compounder score. It models base-case EPS of USD9.91 per ADS at March 31, 2031, which clears the ER2 P/E 15 test at the live ADS price of USD130.73. That means Baidu is not obviously overvalued if the base case is correct. But the 20% return rubric is much stricter. At a 15x exit multiple, base-case terminal value is USD148.61 per ADS, which is only about a **2.6% annualized price return** from USD130.73 over five years before any explicit dividend. The bull case reaches USD266.49 at 15x EPS, which is about **15.3% annualized**, still below 20%. A 20% annualized return from today's price requires a terminal value of about USD325.30. On base-case EPS, that implies an exit multiple of about **32.8x**, which is terminal multiple expansion rather than underwriting discipline.

The score is capped by two hard gates in the source package. The management appendix gives Baidu a **FAIL**, driven by founder voting control, VIE exposure, compensation opacity, FY2025 negative free cash flow, the impairment, and insufficient proof that AI infrastructure and Apollo Go earn high returns on new capital. The moat appendix gives Baidu a **YELLOW**, not a pass: Baidu has real moat fragments, but AI Cloud economics, AI Applications monetization, AI-native marketing durability, and Apollo profitability remain unproven. Those gates do not force this diagnostic score to zero, but they prevent a high business-quality score.

Diagnostic item	Score	Interpretation
Business Quality	35 / 80	Valuable assets and runway, but low reported returns, unproven ROIIC, management FAIL, moat YELLOW, and weak FCF evidence cap the score
Valuation / 20% Return Underwriting	3 / 20	P/E 15 base case clears narrowly, but 20% annualized return does not clear without major terminal multiple expansion
Total Compounder Score	38 / 100	Reject under this diagnostic rubric
Classification	Reject	Below 70 with multiple hard vetoes and no clean 20% return case

Diagnostic item	Score	Interpretation
Confidence	Medium	Historical source chain is strong; product-level AI margins, ROIIC, SBC detail, and Apollo economics remain insufficient

2. Data Source Map

The score uses the ER2 verified source chain first. FMP was used only to refresh the current BIDU quote and USDCNY quote, and those raw quote pulls were saved to the investing data warehouse because they were newly pulled FMP data. The current price used here is USD130.73, market cap USD44.465 billion, and USDCNY 6.7791. The synthesis appendix used USD130.84; the live refresh is immaterial to the conclusion.

Evidence item	Source used	Treatment
Stage anchor	`quant_foundation.md` P0 and `appendix_synthesis.md`	TTM ends March 31, 2026; horizon is March 31, 2031
Historical income statement	`data_package.md` Section 2 and `quant_foundation.md` P3-P4	Official Baidu releases control TTM because FMP current-quarter rows were USD-sized while labeled CNY
Segment history	`quant_foundation.md` P2-P4 and `data_package.md` Section 3	Baidu General Business, iQIYI, and eliminations are the reportable segment structure
Cash flow and balance sheet	`quant_foundation.md` P6 and `data_package.md` Sections 7-8	Q1 2026 official release controls liquidity and share count
Share count	`quant_foundation.md` P6 and synthesis Section 6	Latest diluted ordinary shares are 2,764 million, or 345.5 million ADS equivalents
Management	`appendix_management.md`	Management gate FAIL is incorporated into capital allocation, governance, and hard veto notes
Moat	`appendix_moat.md`	Moat gate YELLOW is incorporated into durability and runway scoring
Segment forward cases	`appendix_B_baidu_general_business.md` and `appendix_B_iqiyi.md`	Controls BGB and iQIYI TTM+5 revenue and operating income assumptions
Combined earnings model	`appendix_synthesis.md`	Controls base, bear, and bull EPS for the valuation bridge
Current price and FX	Live FMP quote for BIDU and USDCNY	Used only for current market-cap and return math; no FMP API key exposed

3. Key Financial and Quality Metrics

Baidu's historical metrics are mixed to weak for a compounder screen. The five-year table in the data package shows revenue of RMB124.493 billion in FY2021 and RMB129.079 billion in FY2025, a roughly 0.9% annualized increase over the available four-year span. Operating income improved from FY2021 to FY2024, but FY2025 was negative after the impairment. Net income remained positive in FY2025, yet free cash flow was negative. The reported ROIC row in the data package was 3.4%, 5.6%, 7.9%, 10.3%, and negative 3.2% for FY2021-FY2025. The median of that row is only about 5.6%, far below the rubric's high-ROIC threshold.

The source package correctly warns that FY2025 and TTM operating income are distorted by the Q3 2025 impairment. I give Baidu some analytical credit for that normalization caveat, because the QF provides an ex-impairment TTM operating-income marker of RMB9.052 billion. But normalization does not automatically create a high-return business. The investment question is whether the AI-heavy future capital base earns attractive incremental returns. The evidence does not yet prove that it does. Baidu has invested heavily in AI since ERNIE launched, capex rose to 10.4% of revenue in FY2025, and management expects elevated investment intensity. Without disclosed AI Cloud margins, utilization, retention, and product-level returns, ROIIC remains insufficiently evidenced.

Metric	Value	Source and interpretation
FY2021-FY2025 revenue CAGR	0.9%	Data package annual table; slow top-line compounding
FY2025 reported operating income	RMB -5.823bn	Data package and QF; impairment-affected but still a capital discipline warning
TTM reported operating income	RMB -7.138bn	QF P4; includes Q3 2025 impairment
TTM ex-impairment OI marker	RMB 9.052bn	QF P4; analytical marker only, not GAAP

Metric	Value	Source and interpretation
FY2021-FY2025 reported ROIC median	5.6%	Data package ROIC row; far below compounder threshold
FY2025 free cash flow	RMB -16.430bn	Data package annual cash flow table
Five-year aggregate FCF / aggregate NOPAT	About 95%	Stronger over the full window, but distorted by FY2025 cash burn
Latest diluted ADS count	345.5m	QF P6; latest diluted ordinary shares divided by 8
Q1 2026 company-defined cash and investments	RMB279.300bn	Data package Section 8; major downside cushion
Q1 2026 total debt	RMB86.796bn	Data package Section 8; net cash on both narrow and broad definitions

4. Rubric Scorecard

Category	Score	Max	Main reason
Incremental Returns on Capital	8	25	Reported ROIC is low, ROIIC is not proven, and FY2025/TTM profitability is distorted by impairment and AI investment
Reinvestment Runway	12	20	Large AI, cloud, agent, and autonomy runway, but proven high-return reinvestment at scale is missing
Durability of Moat	7	15	Moat assets are real but fragmented; moat appendix is YELLOW
Accounting and Financial Quality	5	10	Official-source tie-outs are strong, but FCF volatility, SBC opacity, VIE complexity, and product-margin opacity cap the score
Capital Allocation Discipline	3	10	New buyback and dividend policy help, but management gate is FAIL and the impairment weakens the record
Price and 20% Underwriting	3	20	Base case clears P/E 15 but not 20% annualized return
Total	38	100	Reject under the diagnostic rubric

Detailed subscore logic follows.

For incremental returns, Baidu earns only 8 / 25. Normalized ROIC receives 1 / 5 because reported ROIC is mostly mid-single-digit and never near 20% in the source table. ROIIC receives 0 / 8 because credible three- to five-year ROIIC cannot be shown as high; the endpoint is impairment-distorted and the reinvestment base is large. Deterioration receives 0 / 3 because the latest reported profitability and FCF trend worsened sharply. Unit economics receive 2 / 3 because the segment appendices support attractive unit economics in legacy search, AI-native marketing, and potential AI applications, but not enough product margins are disclosed. Cash conversion receives 2 / 3 because aggregate five-year FCF is not terrible relative to aggregate NOPAT, but FY2025 was a severe negative. ROIC artifact risk receives 3 / 3 because the issue is not fake high ROIC; the issue is low and unproven ROIC.

For runway, Baidu earns 12 / 20. The opportunity is large: AI Cloud Infra, GPU Cloud, enterprise AI, AI-native advertising, agents, Apollo Go, and domestic AI infrastructure can be meaningful markets. But the runway score cannot be high when the proven reinvestment record is weak. AI Cloud growth is strong, but it can be low-return if pricing and utilization disappoint. AI Applications were approximately flat in Q1 2026. Apollo Go has operational scale and a largest-city break-even claim but no disclosed profit pool. iQIYI is a mature media asset, not a high-return growth engine.

For durability, Baidu earns 7 / 15. The moat appendix is exactly calibrated: YELLOW. Baidu can still own important 2046 profit pools, but the evidence does not yet prove a 20-year, high-return moat. The sources of advantage are search intent, Chinese language AI, distribution, regulatory/localization fit, enterprise AI tooling, and Apollo operating data. The weak points are pricing power, consumer attention migration, generic cloud competition, product-margin opacity, and iQIYI's low switching costs.

For accounting and financial quality, Baidu earns 5 / 10. The QF and QFR-style source discipline is strong: official RMB releases control over unreliable current-quarter FMP rows, and the reconciliation passes 8 / 8. The balance sheet is also

strong. The deductions are for negative FY2025 FCF, stock-based compensation and dilution opacity, foreign-issuer compensation disclosure limits, VIE structure complexity, and limited product-level profitability disclosure for the AI transition.

For capital allocation, Baidu earns 3 / 10. The new USD5 billion buyback authorization, first dividend policy, Q1 2026 repurchases, and Kunlunxin spin-off plan are positive. The long record is less convincing. The management appendix's FAIL is decisive evidence: founder voting control, VIE dependence, unclear ROIC-linked incentives, FY2025 impairment, negative FCF, and insufficient AI ROI proof prevent a higher score.

5. ROIIC and Reinvestment Analysis

The compounder rubric asks whether the company can reinvest large amounts of capital at high incremental returns. Baidu does not yet clear that bar. The data package's five-year table shows R&D between 15.8% and 20.0% of revenue, capex rising to 10.4% of revenue in FY2025, and management commentary that AI investment intensity remains elevated. That is a large reinvestment commitment. The payoff remains unclear.

The reported annual ROIC row moves from 3.4% in FY2021 to 10.3% in FY2024 and then to negative 3.2% in FY2025. Even excluding the impairment, the forward AI capital base must produce returns that the historical consolidated data has not yet shown. Baidu General Business has the clearest path: AI Cloud Infra grew rapidly, Q1 2026 BGB returned to 13.1% operating margin, and legacy search can still generate cash if costs are controlled. But the product-level assumptions that get BGB to 17.7% base-case margin in 2031 are modeled assumptions, not disclosed realized margins.

Reinvestment item	Evidence	Score implication
AI investment scale	Management says more than RMB100bn invested in AI since ERNIE launch and investment density remains high	Large opportunity, but high capital burden
FY2025 capex	RMB13.417bn, 10.4% of revenue	Higher capital intensity than historical search model
FY2025 free cash flow	RMB -16.430bn	Cash return on reinvestment not yet proven
BGB ex-impairment base	Analytical TTM OI marker about RMB9.398bn for BGB	Normalization helps, but does not prove ROIIC
AI Cloud margins	Not disclosed; management says GPU Cloud usually has better margin profiles	Insufficient evidence for high ROIIC
Apollo economics	22m cumulative rides and largest-city unit economics break-even claim	Strategic option, not a consolidated ROIIC proof

The most conservative interpretation is that Baidu has a large reinvestment runway but an unproven reinvestment engine. A great compounder can show that each additional dollar of capital earns high returns or that reinvestment is modest because the business throws off cash. Baidu is in between: it has capital to deploy, but the key AI and autonomy investments are still being validated. That is why the incremental return category is the single largest drag on the score.

6. Runway Analysis

Baidu's runway is real. The base-case synthesis grows consolidated revenue from RMB128.702 billion TTM to RMB162.911 billion in March 2031, a 4.8% CAGR. Baidu General Business grows from RMB103.023 billion to RMB137.900 billion, while iQIYI is roughly stable to slightly down. The growth mix is not old search. Legacy traditional marketing declines, while AI Cloud Infra, AI-native Marketing Services, AI Applications, and residual Apollo/other lines carry the forecast.

That runway deserves credit because Baidu is not a melting ice cube if the transition works. Q1 2026 AI Cloud Infra was up 79% year over year, GPU Cloud was up 184%, and AI-powered Business exceeded half of BGB revenue. Apollo Go had more than 22 million cumulative rides by April 2026. The domestic AI stack has strategic value in China. Those facts support a watchlist-quality transition story.

The deductions are equally concrete. Q1 2026 online marketing revenue was down 22% year over year and legacy business was down 29%. AI Applications were approximately flat. AI Cloud Infra margins are not disclosed. AI-native Marketing Services grew, but it sits inside a declining advertising pool. Apollo Go has no disclosed revenue or consolidated profit. iQIYI's TTM revenue was declining and the segment was loss-making. This is a runway that can create value, but only if the growth pools are economically better than the shrinking pools they replace.

Runway line	Positive evidence	Negative evidence
Legacy search and marketing	Large installed advertiser and intent base	Q1 2026 online marketing down 22% YoY

Runway line	Positive evidence	Negative evidence
AI Cloud Infra / GPU Cloud	Q1 2026 AI Cloud Infra up 79%; GPU Cloud up 184%	Margins, retention, backlog, and utilization not disclosed
AI Applications	Distribution through Baidu surfaces and workflow products	Q1 2026 revenue approximately flat
AI-native marketing	Q1 2026 revenue up 36%	May cannibalize legacy ad formats and still depends on advertiser ROI
Apollo Go	Operational scale and largest-city break-even claim	No separate segment revenue or profit disclosure
iQIYI	Stabilization and content discipline possible	FY2023-FY2025 revenue and margin deterioration

7. Moat Analysis

The moat score is intentionally below half of the available points. Baidu has moat fragments, not a clean moat. The best one-paragraph explanation is: Baidu can defend value if its Chinese search intent data, AI models, PaddlePaddle ecosystem, AI Cloud infrastructure, regulatory localization, enterprise workflows, and Apollo operating data reinforce each other into a domestic AI operating layer. That is a credible moat story. It is not yet a proven moat result.

The moat appendix identifies the main fracture lines. Consumer attention can migrate away from search to short video, super apps, social commerce, vertical marketplaces, and agents. Cloud infrastructure can commoditize against Alibaba, Tencent, Huawei, Volcano Engine, state-linked cloud providers, and open-source stacks. AI Applications can be bypassed if other platforms control the workflow surfaces. Apollo can remain operationally impressive but capital intensive. iQIYI has low switching costs and content-cycle economics.

Pricing power is the weakest moat input. Baidu's historical search business likely had better pricing power than the emerging mix. AI Cloud can grow without pricing power if customers buy scarce compute at competitive market rates. iQIYI has limited pricing power because content churn constrains subscription pricing. Apollo's future pricing power is unknown. The most plausible pricing power sits in enterprise AI workflows and AI-native marketing outcomes, but the source package does not yet show realized price increases, churn, net retention, gross margin, or multi-year escalators.

8. Accounting and Capital Allocation Analysis

The accounting/source-quality work is better than the business-quality score might suggest. The QF explicitly catches FMP current-quarter unit problems and uses official Baidu releases and the Form 20-F as controlling sources. Segment revenue and operating income tie exactly to consolidated totals for the TTM and FY2025. That gives medium confidence in the historical base.

The accounting and governance deductions are about investability, not arithmetic. Baidu is a foreign private issuer using a VIE structure for restricted mainland China businesses. The management appendix states that VIEs contributed 50% of 2025 external revenue and that Beijing Baidu Netcom is 99.5% owned by Robin Li and 0.5% by an employee nominee. Founder control is also material: Robin Li held roughly 59.9% of voting rights. Compensation disclosure is not U.S.-style and does not clearly tie executive awards to ROIC, FCF, or per-share compounding. These facts do not imply fraud; they do require a control discount in a minority-shareholder compounder screen.

Capital allocation has improved recently but not enough. The USD5 billion buyback authorization, first dividend policy, Q1 2026 repurchase activity, and possible Kunlunxin spin-off are positive. Yet FY2025 negative FCF, the impairment, and the lack of demonstrated price-sensitive repurchases prevent a strong capital allocation score. A high-quality compounder would show that management can fund growth, buybacks, and dividends from recurring free cash flow while maintaining high returns on new capital. Baidu has not yet shown that.

9. 20% Return Underwriting

The 20% return model uses the synthesis appendix's bear, base, and bull EPS outputs and applies a 15x terminal P/E. That is stricter than asking whether the stock is cheap on a five-year-forward P/E basis. The base case can be statistically cheap and still fail a 20% annualized return hurdle.

Case	EPS at March 31, 2031	15x EPS value	Current ADS price	Annualized return	20% hurdle result
Bear	USD2.15	USD32.30	USD130.73	-24.4%	Fail
Base	USD9.91	USD148.61	USD130.73	2.6%	Fail
Bull	USD17.77	USD266.49	USD130.73	15.3%	Fail

At the current price, a 20% annualized return over five years requires terminal value of about USD325.30 per ADS. On base-case EPS of USD9.91, that would require an exit P/E of about 32.8x. On bull-case EPS of USD17.77, it would require about 18.3x. The base case therefore requires major multiple expansion to clear 20%, and even the bull case requires more than the 15x conservative exit multiple.

Underwriting test	Result	Interpretation
Base-case IRR >= 20% without multiple expansion	Fail	Base case is about 2.6% at 15x terminal EPS
Conservative exit multiple	Fail	15x does not clear 20%; base needs about 32.8x
Bear case acceptable	Fail	Bear value is about 75% below current price
Reverse DCF beatable	Fail	Required value and implied base P/E are too high
Multiple does not price perfection	Partial	P/E 15 base case clears, but 20% return does not
Cash returns help	Partial	Buybacks and dividend policy help, but execution is not proven and EPS already embeds buyback assumptions

The maximum buy price for a 20% annualized return using the base-case 15x terminal EPS value is about **USD59.72** per ADS before explicit dividends. The current price is far above that. This is the cleanest reason the valuation underwriting score is only 3 / 20.

10. Hard Veto Checklist

Hard veto	Status	Evidence
ROIIC below cost of capital with no credible path to improvement	Watch / Fail	High-return AI ROIIC is not yet evidenced; reported ROIC is low
Reported ROIC high only because invested capital is artificially tiny	Pass	Reported ROIC is not high; this is not the problem
Growth requires persistent external financing	Pass / Watch	Balance sheet is strong, but AI investment may use leases and borrowings
Share count rises materially without value creation	Pass / Watch	Recent share count is down, but SBC and buyback economics remain opaque
Large acquisitions without disclosed returns	Watch	Investment and impairment history weakens capital allocation confidence
FCF structurally lags earnings	Watch / Fail	FY2025 FCF was negative RMB16.430bn; AI capex intensity may persist
Concentration, regulation, platform dependency, cyclicality, or leverage can impair equity	Fail	VIE structure, China regulation, attention migration, and AI/cloud competition are material
20% return case requires terminal multiple expansion	Fail	Base case needs roughly 32.8x terminal P/E to reach 20%
Flawless execution needed to justify price	Fail	AI Cloud margin, apps reacceleration, legacy ad stabilization, and FCF conversion all must work
Cannot explain the moat in one paragraph	Pass / Watch	Moat can be described, but it is fragmented and rated YELLOW
Governance, accounting, auditor, related-party, or restatement issues impair trust	Fail	Founder voting control, VIE exposure, and compensation opacity impair minority-shareholder trust
Balance sheet risk could wipe out equity holders	Pass	Net cash and investments provide a substantial cushion

The most important veto is not solvency. Baidu has a strong balance sheet. The veto is return quality: the business must convert a large AI transition into durable operating margins, cash conversion, and per-share compounding while minority shareholders accept founder control and VIE complexity. That is too much unresolved proof for a high compounder classification.

11. Final Decision

Compounder Score note: 38 / 100; Reject under this diagnostic rubric because historical ROIC and ROIIC are weak, management is FAIL, moat is YELLOW, and the 20% return case does not work without major terminal multiple

expansion.

Business Quality Score note: 35 / 80; Baidu has real AI/search/autonomy assets and a large balance sheet, but reported returns, free cash flow, capital allocation evidence, governance, and product-level economics are not Gideon-quality today.

20% Return UW Score note: 3 / 20; the base case clears the ER2 15x FY+5 EPS test, but the implied five-year annualized return at 15x terminal EPS is only about 2.6%, and even the bull case is below 20%.

The diagnostic conclusion is **Reject**, not because Baidu lacks strategic assets, but because the evidence does not yet meet the compounder standard. A future upgrade would require several observable changes: positive consolidated FCF through the AI investment cycle, BGB margin recovery with AI Cloud margin evidence, stabilization of online marketing declines, reacceleration in AI Applications, proof that Apollo can contribute economically beyond one city-level break-even claim, and better minority-shareholder capital allocation evidence. Until those appear, the score should stay below investable threshold even if the P/E 15 base-case arithmetic remains acceptable.

12. Machine-Readable JSON

The full machine-readable output is written separately to `C:\Users\Admin\OneDrive\GPT\ER 2.0\Baidu\compounder_score.json`. Key fields are summarized below.

Field	Value
total_score	38
business_quality_score	35
valuation_underwriting_score	3
classification	Reject
clears_20pct_hurdle	false
base_case_irr	2.6%
bear_case_irr	-24.4%
bull_case_irr	15.3%
max_buy_price_for_20pct_irr	USD59.72

Appendix CSA - Scoring Audit

Baidu, Inc. - Scoring Audit

Output owner: Subagent CSA (Scoring Auditor)

Company: Baidu, Inc. Ticker: BIDU Audit date: 2026-05-29 TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, ending March 31, 2026 Forward horizon: March 31, 2031

This audit reviews `appendix_compounder_score.md` and `compounder_score.json` against the ER2 source files in the Baidu work folder. The audited score is diagnostic only. It does not mechanically determine the ER2 BUY / WATCH / PASS verdict, but it controls the score rows that the final verdict should cite.

1. Original vs Audited Scores

The original compounder score is directionally skeptical and mostly well supported. The scorer assigned Baidu 38 / 100, composed of 35 / 80 for Business Quality and 3 / 20 for Valuation / 20% Return Underwriting. The score-implied classification was Reject. The original JSON also reports base-case IRR of about 2.6%, bear-case IRR of about negative 24.4%, bull-case IRR of about 15.3%, and a maximum buy price of USD59.72 per ADS for a 20% annualized return using the base-case 15x terminal EPS value.

The principal audit conclusion is that the original valuation score is already harsh enough, but the Business Quality score should be reduced from 35 / 80 to 33 / 80. The reduction is not because the scorer missed a hidden arithmetic failure. It is because the runway score gives slightly too much credit to AI Cloud Infra, AI-native marketing, AI applications, and Apollo Go before the evidence shows product-level margins, ROIIC, retention, utilization, backlog, or repeatable cash conversion. The data package and segment appendices repeatedly flag those items as missing or modeled assumptions.

Item	Original	Audited	Notes
Business Quality Score / 80	35	33	Reduce runway by 2 points because the growth opportunity is real but the high-return reinvestment proof is still thin
Valuation / 20% Return UW Score / 20	3	3	Keep low score; base and bull fail the 20% annualized return hurdle at 15x
Total Score / 100	38	36	Still well below investable threshold
Classification	Reject	Reject	Score below 70, hard vetoes present, and 20% case not plausible without terminal multiple expansion

The source files have a small price discrepancy: the score JSON uses USD130.73, while the synthesis appendix uses USD130.84. This does not change the conclusion. At either price, base-case 15x value is only about USD148.61 per ADS, far below the value required for a 20% annualized return.

2. Score Reductions and Reasons

The only numerical reduction is to Reinvestment Runway, from 12 / 20 to 10 / 20. Baidu has large markets to pursue, but the scoring rubric asks for more than market size. It asks whether the company can reinvest at high incremental returns over time. The evidence is not there yet.

The data package shows FY2025 capex of RMB13.417 billion, or 10.4% of revenue, and management commentary that AI investment intensity will remain elevated. It also shows that AI-powered Business reached RMB13.6 billion in Q1 2026 and 52% of Baidu General Business revenue. AI Cloud Infra was RMB8.8 billion in Q1 2026, up 79% year over year, and GPU Cloud grew 184%. Those facts support opportunity and momentum. They do not prove that the capital being committed earns a Gideon-level return.

The Baidu General Business appendix is careful on this point. It states that AI Cloud Infra margins, AI Applications margins, AI-native Marketing margins, Apollo Go revenue, Apollo Go losses, Kunlunxin revenue, backlog, retention, and utilization metrics are not disclosed. It then models product-level margins as analytical assumptions. The base case assumes AI Cloud Infra grows at 18% annually and earns a 14% operating margin by March 2031. That is plausible, but it is not observed evidence. The Q3 2025 impairment is direct evidence that AI infrastructure assets can be repriced downward when

economics disappoint.

The iQIYI appendix also supports a lower runway score. iQIYI is about one-fifth of FY2025 reportable revenue before eliminations, but it is not a high-return growth engine. Its TTM operating margin is negative, FY2025 operating margin was only 0.8%, and revenue fell from FY2023 to FY2025. The base case treats iQIYI as a stabilization and margin-repair asset, not a compounding engine. That makes a consolidated runway score above half credit hard to defend without stronger AI returns in Baidu General Business.

3. Unsupported Claims

The original score does not contain many unsupported bullish claims. Its language repeatedly says "not proven," "not disclosed," or "modeled assumption." The main unsupported area is the degree of positive credit embedded in runway and unit economics.

The evidence supports the claim that Baidu has real AI assets. The evidence does not support a claim that those assets already form a proven high-return reinvestment engine. AI Cloud Infra growth is disclosed, but product margin is not. GPU Cloud growth is disclosed, but utilization, depreciation, backlog, pricing, and retention are not. AI Applications launches are described, but Q1 2026 AI Applications revenue was approximately flat year over year. Apollo Go ride count and largest-city unit-economics break-even commentary are disclosed, but consolidated Apollo revenue and profit are not.

The scorer also gives 2 / 3 for unit economics within the incremental-return category. That is not a clear error because the segment appendices do show credible unit-economic mechanisms for legacy search, AI-native marketing, AI applications, and Apollo Go. But the score should be read as mechanism credit, not demonstrated economics credit. The source evidence does not justify any stronger unit-economics score.

4. Calculation Errors

I did not find a calculation error large enough to change the valuation score. The synthesis builds the five-year cases from TTM ending March 31, 2026 to March 31, 2031 and reports USD EPS per ADS of 2.15 in bear, 9.91 in base, and 17.77 in bull. Applying a 15x terminal P/E gives USD32.30, USD148.61, and USD266.49 per ADS. Against a current ADS price around USD130.7 to USD130.8, that produces roughly negative 24%, positive 2.6%, and positive 15.3% annualized price returns. The 20% hurdle therefore fails in all three cases at the conservative 15x exit multiple.

The reverse test also checks out directionally. A 20% annualized return over five years requires terminal value of roughly USD325 per ADS. On base-case EPS of USD9.91, that requires an exit P/E of about 32.8x. That is major multiple expansion, not conservative underwriting. On bull-case EPS of USD17.77, the needed multiple is about 18.3x, still above the 15x conservative terminal multiple. The original 3 / 20 valuation score is therefore not inflated enough to require a reduction.

The ROIC and ROIIC treatment is also appropriate. The data package reports ROIC of 3.4%, 5.6%, 7.9%, 10.3%, and negative 3.2% for FY2021 through FY2025. The scorer gives normalized ROIC only 1 / 5 and ROIIC 0 / 8. Because ROIIC is not credibly calculated as high, that 0 is required under the CSA rule. The score does not improperly award ROIIC points.

5. Missing Data

The most important missing evidence is product-level economics. The ER2 source files lack AI Cloud Infra gross margin and operating margin, AI Applications margins, AI-native Marketing margins, Apollo Go revenue and consolidated losses, Apollo city-level economics beyond a largest-city break-even claim, GPU Cloud utilization, backlog, customer retention, churn, and realized pricing. Without those items, the analyst can model a transition, but cannot yet verify high incremental returns.

SBC is another incomplete area. The synthesis states that the FMP FY2025 stock-based compensation field appears unreliable or zero despite ongoing equity incentive plans, so it uses an ADS issuance estimate instead of treating the zero as economic reality. That is the right conservative response. It also means the score should not treat SBC detail as fully verified. The original accounting quality score of 5 / 10 is fair, not generous.

Acquisition-inclusive ROIIC is not calculated. Acquisition cash flow is not the central Baidu issue in the latest period, but FY2021 acquisition cash flow was meaningful. Because reported ROIIC is already scored at zero and capital allocation is only 3 / 10, this gap does not require an additional large penalty. It does lower confidence in any claim that historical reinvestment has been high return.

6. Hard-Veto and Threshold Test Audit

The hard-veto list is supported. High-return ROIIC is not evidenced. The 20% return case requires major terminal multiple expansion. Management is a FAIL in the management appendix because of founder voting control, VIE dependence, compensation opacity, FY2025 negative FCF, the impairment, and insufficient AI ROI proof. Moat is YELLOW because the asset base is real but the AI-led economics are not yet proven.

The threshold classification is also correct. The audited total score is below 70. Business Quality is far below 65 / 80. Valuation is far below 15 / 20. Base-case IRR is below 20%. Bear-case IRR is deeply negative. The 20% case requires terminal multiple expansion. The correct diagnostic classification is Reject, not Watchlist, because multiple hard vetoes are present and the return case is not merely uncertain; it fails the modeled hurdle.

7. Final 20% Hurdle Pass / Fail

Baidu fails the 20% hurdle. The base case clears the ER2 P/E 15 test, but that is a different and easier test. A stock can be cheap enough on five-year-forward P/E and still fail a 20% annualized return test when the five-year EPS endpoint is not high enough. Here, the base case reaches USD9.91 EPS and USD148.61 of 15x value, leaving only a small price return from the current ADS price. The bull case reaches USD266.49 at 15x, which is still below the roughly USD325 value needed for 20% annualized appreciation.

Cash returns help but do not rescue the case. Baidu has announced a USD5 billion buyback authorization and first dividend policy, and Q1 2026 repurchases were USD172 million. The synthesis correctly models buybacks with SBC offsets rather than assuming the full authorization becomes free EPS accretion. The 20% return case still fails.

8. Dream Business / Dream Investment Classification

Baidu is neither a dream business nor a dream investment under this diagnostic rubric. It has dream-business fragments: search intent, domestic AI engineering, AI Cloud Infra growth, Apollo Go operational data, a large balance sheet, and founder-led strategic coherence. But the consolidated record is not a dream-business record. Reported ROIC is low, FY2025 FCF was negative, legacy online marketing is declining sharply, iQIYI is weak, and the AI transition is not yet proven to produce durable cash returns.

It is also not a dream investment at the audited price. The base case is not obviously expensive on the ER2 P/E 15 test, but the 20% return math does not work without material exit multiple expansion. The single biggest reason Baidu does not qualify is that the company must prove AI-led revenue can become high-return, cash-converting profit before the valuation can underwrite a 20% annualized return.

9. Stage 7 Scorecard Notes

Compounder Score note: 36 / 100; Reject under this diagnostic rubric because Baidu has real AI and search assets, but observed ROIC, ROIIC, cash conversion, management alignment, and 20% return underwriting are not yet Gideon-quality.

Business Quality Score note: 33 / 80; the runway is large, but product-level AI margins, ROIIC, Apollo economics, SBC detail, and durable FCF conversion remain insufficiently proven.

20% Return UW Score note: 3 / 20; the base case clears the ER2 15x FY+5 EPS test, but base-case 15x value implies only about a 2.6% annualized price return and the 20% case requires major terminal multiple expansion.

10. Auditor JSON

The companion JSON file `compounder_score_audit.json` contains the audited score, classification, hurdle result, scorecard notes, major reductions, unsupported claims, calculation errors, missing data, and confidence level.

Appendix RT - Red Team

Baidu, Inc. - Red Team

Stage 0 anchor: TTM ending March 31, 2026. Forward horizon: March 31, 2031. This appendix is adversarial by design. It does not revise the audited compounder score, but it tests whether the synthesis, score audit, and segment appendices are leaning on assumptions that a skeptical investment committee should refuse to underwrite.

1. The Most Fragile Assumption

The most fragile assumption is the Baidu General Business base-case AI Cloud Infra line: RMB23.7 billion of TTM revenue compounding at 18% for five years to RMB54.2 billion by March 31, 2031, while reaching a 14% operating margin. This is the hinge of the entire model. It is not just a growth assumption; it is a growth-quality assumption. The synthesis can look conservative at consolidated revenue CAGR of 4.8%, but that top-line modesty hides a very specific rotation: legacy traditional marketing falls from RMB48.8 billion to RMB35.8 billion, while AI Cloud Infra rises by roughly RMB30.5 billion and produces RMB7.6 billion of operating income.

That assumption is fragile because the evidence proves demand momentum but not return quality. The Q1 2026 Baidu release says AI Cloud Infra revenue was RMB8.8 billion, up 79% year over year, and GPU Cloud revenue rose 184%, while AI-powered business reached 52% of Baidu General Business revenue. That is real. But the same release also says online marketing services were down 22% year over year, legacy business was down 29%, AI Applications were flat year over year, and Q1 cost of revenue rose quarter over quarter partly because of AI Cloud costs. The facts are consistent with a successful revenue transition. They are also consistent with a low-return capital transition where compute demand grows but the profit pool is competed away or consumed by depreciation, leases, power, customer acquisition, and chip refresh cycles.

The segment appendix is appropriately explicit that AI Cloud Infra product margins, utilization, backlog, retention, and realized pricing are not disclosed. Therefore the 14% base margin is not observed. It is a modeled endpoint. The synthesis depends on it more than the consolidated sensitivity table reveals. If AI Cloud Infra still reaches RMB54.2 billion but earns 5% rather than 14%, Baidu General Business loses about RMB4.9 billion of operating income versus the base case. After an 18% tax rate, that is roughly RMB4.0 billion of net income, or about RMB11.7 per ADS, equal to roughly USD1.7 of EPS using the synthesis exchange relationship. Base EPS falls from USD9.91 to about USD8.2, below the USD8.72 required for the P/E 15 pass. If AI Cloud Infra earns 0%, base EPS falls closer to USD7.2. In other words, the P/E 15 pass is not robust to a normal cloud-commoditization outcome. It needs AI Cloud to be profitable enough, not merely large enough.

Assumption	Base case	Red-team stress	Approximate EPS effect	Verdict impact
AI Cloud Infra TTM+5 revenue	RMB54.2bn	Same revenue	None	Growth alone does not break the case
AI Cloud Infra TTM+5 margin	14%	5%	About -USD1.7 EPS	Base falls below required EPS
AI Cloud Infra TTM+5 margin	14%	0%	About -USD2.7 EPS	Base clearly fails P/E 15
Required EPS for 15x	USD8.72	Unchanged	N/A	Narrow cushion disappears

This is the single assumption I would attack first because it turns a narrative about AI demand into a claim about shareholder earnings. The former is already partly proven. The latter is not.

2. The Most-Likely-To-Be-Optimistic Stage 5 Number

The Stage 5 number most likely to be optimistic is base-case combined operating income of RMB26.553 billion, especially the Baidu General Business contribution of RMB24.4 billion at a 17.7% margin. The synthesis defends the 16.3% consolidated operating margin by saying it is close to FY2023 and FY2024, but that comparison is dangerous. The old margin was earned by a different mix: more legacy search and ad monetization, less AI infrastructure, less visible robotaxi option value, and less proof of cloud-driven cost intensity. The future mix is supposed to include more AI Cloud Infra, AI Applications, AI-native marketing, and Apollo or residual AI projects. The burden is not whether Baidu once had mid-teens margins. The burden is whether the new mix can earn them.

The recent trend is not clean enough to grant that. Baidu General Business recovered to 13.1% operating margin in Q1 2026 after the impairment-distorted 2025 trough, but the same quarter had flat quarter-over-quarter BGB revenue, online marketing down 22% year over year, and cost of revenue pressure tied partly to AI Cloud. A single post-trough quarter does not validate

a March 2031 BGB margin near the FY2024 old-business margin. The model acknowledges this caveat, but the red team should state it harder: the base case is underwriting margin normalization before the new profit pool has proven its economics.

The share count path is a secondary optimism risk. The base case assumes USD0.6 billion of annual buybacks partly offset by 4.0 million ADS of annual SBC issuance, reducing ADS count only modestly to 342.6 million. That is not aggressive by authorization size, but it assumes enough cash generation and board willingness to keep buying while AI capex, leases, and cloud investment remain elevated. If FCF conversion disappoints, the company may preserve cash for compute infrastructure and strategic investments, leaving the denominator less helpful than modeled. Still, this is not the most important line. The bigger risk is operating income, not share count.

3. Strongest Bear Case In Its Strongest Form

The strongest bear case is that Baidu is correctly diagnosing the AI platform shift but is structurally late in monetizing it for ADS holders. AI search cannibalizes traditional paid-link inventory faster than AI-native marketing replaces profit dollars. AI Cloud Infra grows fast because enterprises need compute, but Alibaba, Tencent, Huawei, state-linked cloud providers, open-source model stacks, and specialist infrastructure vendors keep pricing competitive. Baidu therefore reports more AI revenue but earns cloud-like or worse returns on a heavier asset base. Apollo Go and AI Applications create impressive product demos, ride counts, and engagement, but they do not become disclosed consolidated profit pools quickly enough to offset the shrinking ad engine.

This bear case shows up within the next two to four quarters, not in 2031. The tell is that online marketing remains down double digits while AI Cloud revenue keeps growing and BGB normalized operating margin fails to expand. That would mean the transition is technologically real but economically weak. The synthesis bear case already captures this direction, but the main narrative should not treat it as a remote downside. It is close to the current evidence: legacy business down 29%, online marketing down 22%, AI Applications flat, iQIYI down 8% quarter over quarter, and no disclosed AI Cloud margin.

4. Cross-Examination Of Management Commentary

The management commentary has three claims that deserve skeptical cross-examination.

First, Robin Li's Q1 2026 statement that AI has become the core driver of Baidu is directionally supported by the revenue mix, but it can mislead if "driver" is read as "profit engine." The Q1 release shows AI-powered business at 52% of BGB revenue and AI Cloud Infra up 79%. It also states that management-account revenue and operational data are unaudited. The first crack, if this claim overpromises, will be BGB margin. AI can drive revenue while lowering operating returns.

Second, the CFO's comment that GPU Cloud usually carries better margin profiles is too qualitative to bear much valuation weight. "Usually" is not a margin disclosure, and GPU Cloud economics can reverse quickly if utilization falls, contract duration is short, chip depreciation accelerates, or peers price aggressively. Alibaba's March quarter 2026 release is a useful external warning. Alibaba Cloud revenue grew 38% and Cloud adjusted EBITA rose 57%, but the same company reported a group operating loss and much higher cost, product-development, and sales-and-marketing intensity as AI and technology investments expanded. AI cloud growth can coexist with major margin pressure elsewhere in the platform.

Third, Apollo Go's largest-city unit-economics break-even commentary is not consolidated proof. Baidu reported 3.2 million fully driverless rides in Q1 2026, over 22 million cumulative public rides by April, and a global footprint of 27 cities by May. Those are impressive operating metrics. They do not disclose revenue, gross margin, city-level contribution beyond the strongest city, vehicle capex, insurance, fleet utilization, remote operations cost, or regulatory burden. If this commentary overpromises, the first signal will be ride count growth without disclosed revenue and without improvement in BGB free cash flow conversion.

Management claim	Skeptical read	First line to watch
AI is the core driver	Revenue mix proof is not profit proof	BGB normalized operating margin
GPU Cloud has better margin profile	Qualitative claim without product margin disclosure	AI Cloud margin, utilization, OCF conversion
Apollo largest city broke even	Best-city proof is not consolidated economics	Apollo revenue and multi-city contribution margin

5. Stage 5 Tie-Out Reverification

The red team does not find an arithmetic tie-out break. The synthesis ties TTM revenue and operating income to the segment appendices, uses the correct TTM anchor ending March 31, 2026, and keeps the first-forward-year revenue increase inside a

reasonable recency band. The problem is economic normalization, not math. Reported TTM operating income is negative because of the RMB16.190 billion impairment. The model uses an ex-impairment reference and then assumes gradual margin recovery. That is allowed, but it means the base case is anchored to an adjusted economic view, not to currently reported profitability.

The recency anchor actually makes the red-team case sharper. Q1 2026 is already in the TTM base, so the model is not stale in a simple timing sense. It includes the recent mix shift. Yet the latest quarter still shows the pattern that can break the model: online marketing deterioration, flat AI Applications, cost pressure from AI Cloud, and iQIYI weakness. The model is not missing the latest quarter; it is choosing to believe later years will improve materially from it.

The share count path is realistic enough mechanically but not bankable as a thesis pillar. The model does not assume the full USD5 billion authorization is spent immediately, which is good. The red-team issue is that buybacks are being modeled while the business may need to fund a capital-intensive AI infrastructure cycle. A cash-rich balance sheet can do both for a while, but the Gideon test is not liquidity. It is high-return reinvestment plus per-share compounding. If management uses leases and borrowings to fund AI capacity while buybacks continue, reported EPS may look better than economic returns.

The product CAGR that exceeds competitor evidence without a named structural reason is AI Cloud Infra. Baidu does have structural reasons: ERNIE, PaddlePaddle, Kunlunxin, domestic compliance, search data, enterprise AI workloads, and full-stack optimization. But peers also have structural reasons. Tencent's Q1 2026 release says core businesses generated the cash flow to fund AI investments and that operating profit excluding new AI products grew 17% year over year; it also reported RMB31.9 billion of capex and RMB56.7 billion of free cash flow. Tencent's AI push is funded by a far more visibly cash-generative base. Alibaba Cloud is much larger than Baidu's AI Cloud Infra and still growing quickly. Baidu's 18% AI Cloud CAGR may prove achievable, but the 14% margin is the more contestable part because peers can subsidize infrastructure from stronger cash engines.

6. Score-Derived 20% Return Claim Most Likely To Be Wrong

The audited scoring file already rejects the 20% return case, and the red team agrees. The base-case IRR is about 2.6%, the bull-case IRR is about 15.3%, and the maximum buy price for a 20% return is about USD59.72. The most important point is not that the audited valuation score is low. It is that even the bull case at a 15x terminal multiple does not clear the 20% hurdle. A 20% case requires either materially higher EPS than the synthesis bull case or a terminal multiple above the conservative Gideon framework.

The score-derived claim most likely to be wrong in any optimistic reading is the idea that a narrow P/E 15 pass is close enough to good underwriting. It is not. A base-case 15x value of USD148.61 against a USD130.84 price gives only 13.6% total price cushion over five years before dividends, and the probability-weighted 15x value is only 5.0% above the price. That is not a margin of safety for a management FAIL, a moat YELLOW, product-margin opacity, VIE dependence, founder voting control, FY2025 negative FCF, and a business model transition that could be technologically successful but economically mediocre.

The 20% return case breaks first on NOPAT CAGR and exit multiple, not on arithmetic. If AI Cloud Infra and AI-native marketing do not deliver high-margin NOPAT growth, the only way to get a 20% annualized return is multiple expansion. But multiple expansion is exactly what a Gideon-style process should refuse to rely on when ROIIC, product margins, and cash conversion are unproven.

7. Single Signal That Forces An Exit

The single exit signal is this: over the next two reported quarters, if Baidu General Business online marketing revenue remains down more than 15% year over year while BGB normalized operating margin stays below 12%, exit or reject the thesis.

This signal is deliberately paired. Online marketing decline alone is not enough because Baidu is intentionally rotating the business. BGB margin alone is not enough because one quarter can be distorted by impairment, expense timing, or launch cycles. Together, they test the exact model hinge: whether AI revenue is replacing legacy ad profit rather than just replacing legacy ad revenue. If online marketing remains down more than 15% and BGB margin cannot clear 12%, the March 2031 base case of BGB RMB137.9 billion revenue and 17.7% margin becomes an act of faith. It would mean AI Cloud, AI Applications, AI-native marketing, and Apollo are not yet offsetting the loss of the old profit pool.

Exit signal	Threshold	Window	Why it breaks the case
Online marketing YoY growth	Worse than -15%	Next two quarters	Legacy erosion is not moderating

Exit signal	Threshold	Window	Why it breaks the case
BGB normalized operating margin	Below 12%	Same two quarters	AI mix is not restoring profit quality
Combined trigger	Both occur	Two-quarter confirmation	Base EPS cushion likely disappears

8. Conviction At The End Of Red Team

Thesis does not survive as a BUY candidate today. It may survive as a monitored transition watch, but only with a hard discount for management, moat, and proof gaps. The synthesis is internally coherent and does not fabricate arithmetic. That is not enough. The strongest red-team conclusion is that the valuation pass is too narrow for the quality risk. Baidu may be cheap on a base-case five-year P/E screen, but the business has not yet proven that its new AI revenue mix converts into high-return operating income and free cash flow for minority ADS holders.

The issue is not that Baidu lacks assets. It has real assets: search distribution, AI engineering, AI Cloud growth, ERNIE, PaddlePaddle, Kunlunxin optionality, Apollo operating scale, and a large balance sheet. The issue is that the current evidence supports "credible AI transition" more than "Gideon compounder." A narrow 15x pass can still be bad underwriting when the pass depends on undisclosed AI Cloud margins, a shrinking ad base, a management FAIL, a moat YELLOW, and a 20% return case that already fails under the audited score.

The thesis-breaking issue that remains is product-level economics. Until Baidu discloses or demonstrates AI Cloud Infra margins, utilization, retention, backlog, Apollo economics, and AI Applications monetization, the base case is a plausible story rather than an underwritable compounder case. The main narrative should say that plainly.

Sources Used

Source	Use
[Baidu Q1 2026 results](https://ir.baidu.com/news-releases/news-release-details/baidu-announces-first-quarter-2026-results)	AI Cloud, AI Applications, AI-native marketing, legacy, online marketing, Apollo, cost trend
[Alibaba March quarter 2026 results](https://www.businesswire.com/news/home/20260512841182/en/Alibaba-Group-Announces-March-Quarter-2026-and-Fiscal-Year-2026-Results)	Peer AI cloud growth and AI investment pressure
[Tencent Q1 2026 results PDF](https://static.www.tencent.com/uploads/2026/05/13/47382ae415a209fd161bc19a1f9b3704.pdf)	Peer AI funding capacity, capex, FCF, and profit context

Appendix D - Data Package (raw historicals)

Baidu, Inc. (BIDU) - Data Package

Output owner: Subagent D (Data Package)

Company: Baidu, Inc.

Ticker: BIDU

Output path: `C:\Users\Admin\OneDrive\GPT\ER 2.0\Baidu\data_package.md`

All financial amounts are RMB billions unless stated otherwise. The controlling quantitative base for reported segment and TTM data is `quant_foundation.md`, which concluded that Baidu is a foreign private issuer / ADR issuer and that official Baidu IR releases and the 2025 Form 20-F control where current FMP rows are mislabeled or stale. Live FMP annual pulls in `raw_D` are used here only for the five-year consolidated template rows required by the D contract and for self-verification; they are not used to override the QF TTM or segment base. Verbatim transcript excerpts are intentionally short for copyright compliance; longer management commentary is paraphrased with period, speaker, and source.

0. Stage 0 Anchor And Source Inventory

Stage 0 time anchor, enforced for this data package:

- Today: 2026-05-28.
- Company fiscal year convention: Baidu's fiscal year ends December 31.
- Most recently reported quarter: Q1 2026, period ended March 31, 2026.
- TTM anchor: Q2 2025 + Q3 2025 + Q4 2025 + Q1 2026, ending March 31, 2026.
- Forward horizon: TTM + 5 calendar years = March 31, 2031.

Live fetches performed in this run:

Source	URL or endpoint	Use
Baidu Q1 2026 results	https://ir.baidu.com/news-releases/news-release-details/baidu-announces-first-quarter-2026-results/	Latest quarter, AI business highlights, balance sheet, share count, Apollo, quote checks
Baidu Q4 and FY 2025 results	https://ir.baidu.com/news-releases/news-release-details/baidu-announces-fourth-quarter-and-fiscal-year-2025-results/	FY2025, segment annuals, AI-powered business annual disclosure, capital return actions
Baidu Q3 2025 results	https://ir.baidu.com/news-releases/news-release-details/baidu-announces-third-quarter-2025-results/	Q3 impairment, AI-native view launch, quarterly segment base
Baidu Q2 2025 results	https://ir.baidu.com/news-releases/news-release-details/baidu-announces-second-quarter-2025-results/	Q2 trend, AI search monetization testing, CFO transition
Baidu 2025 Form 20-F	https://www.sec.gov/Archives/edgar/data/1329099/000119312526109289/d38065d20f.htm	Reportable segment taxonomy and annual segment table, as cited by QF
FMP income statement	`stable/income-statement?symbol=BIDU&period=annual&limit=6`	Five-year consolidated annual template and FY2025 self-check
FMP cash flow	`stable/cash-flow-statement?symbol=BIDU&period=annual&limit=6`	Capex, FCF, buybacks, M&A cash flow rows
FMP balance sheet	`stable/balance-sheet-statement?symbol=BIDU&period=annual&limit=2`	FY2025 balance sheet cross-check and goodwill/intangibles
FMP key metrics and ratios	`stable/key-metrics` and `stable/ratios`, annual	Invested capital, tax rates, ROIC cross-checks
FMP transcripts	`stable/earning-call-transcript` for 2025 Q2-Q4 and 2026 Q1	Management commentary and transcript date validation
NBS China GDP	https://www.stats.gov.cn/english/PressRelease/202604/t20260420_1963362.html	China macro context
NBS retail sales	https://www.stats.gov.cn/english/PressRelease/202605/t20260519_1963757.html	Consumer and online retail context

Source	URL or endpoint	Use
Uber Apollo Go Dubai release	https://investor.uber.com/news-events/news/press-release-details/2026/Baidu-and-Uber-Partner-to-Bring-Apollo-Go-Autonomous-Ride-hailing-to-Dubai-in-Collaboration-with-Dubais-Roads-and-Transport-Authority/default.aspx	Apollo Go international expansion
Lyft Apollo Go Europe release	https://investor.lyft.com/news-events-presentations/press-releases/detail/95/lyft-partners-with-baidu-to-deploy-autonomous-rides-across-europe	Apollo Go Europe partnership context

Self-verification spot checks:

Check	Result	Evidence
Largest segment latest-quarter growth	PASS	Baidu Q1 2026 release says Baidu General Business revenue was RMB26.0bn, up 2% YoY, and Baidu Core AI-powered Business was RMB13.6bn, up 49% YoY.
Management commentary recency	PASS	FMP transcript endpoint for 2026 Q1 returned date 2026-05-18 and period Q1, matching the Q1 2026 call date in the release.
FY-1 revenue self-check	PASS	Live FMP annual income statement shows FY2025 revenue RMB129.079bn, matching QF and the official FY2025 release.

1. Reporting Structure And Taxonomy

Baidu currently reports two reportable segments: Baidu General Business and iQIYI. Baidu General Business provides online marketing services and other businesses including AI cloud, AI applications, AI-native marketing services, Apollo Go, and other non-iQIYI operations. iQIYI produces, aggregates, and distributes professional and user video content and remains a consolidated video entertainment subsidiary. Intersegment eliminations reconcile the two segment totals to consolidated Baidu.

The reportable segment structure is stable in the Form 20-F segment table for 2023 through 2025. The naming and investor-view taxonomy changed in Q4 2025: Baidu stated that it redefined Baidu Core as Baidu General Business and introduced a management-account view that splits Baidu General Business into Baidu Core AI-powered Business, Legacy Business, and Others. That new AI-native view is valuable for understanding revenue mix, but it is not the audited reportable segment taxonomy. Segment appendices should model Baidu General Business and iQIYI as reportable segments, then treat AI Cloud Infra, AI Applications, AI-native Marketing Services, Apollo Go, and Legacy Business as subsegment context where disclosed.

FY2025 reportable segment revenue mix:

Segment	FY2025 revenue	% of consolidated revenue	Description	Source
Baidu General Business	102.485	79.4%	Search, feed, AI cloud, AI applications, AI-native marketing, Apollo Go, and other non-iQIYI operations	QF P2, Baidu FY2025 release, 2025 Form 20-F
iQIYI	27.290	21.1%	Online entertainment and video membership / advertising / content distribution business	QF P2, Baidu FY2025 release, 2025 Form 20-F
Intersegment eliminations	-0.696	-0.5%	Reconciliation between segments and consolidated Baidu	QF P2
Consolidated Baidu	129.079	100.0%	Baidu, Inc. total	QF P2 and live FMP annual self-check

Geography: QF does not provide a geographic revenue split and Baidu's core operating exposure is primarily China. Apollo Go and AI application expansion outside China are material strategically, but current segment revenue is still reported through the Baidu General Business segment rather than by geography. Do not create a U.S. / China / international revenue model unless a later subagent fetches a primary-source geographic table.

Taxonomy flags:

Flag	Treatment
Baidu Core renamed / redefined as Baidu General Business in Q4 2025	Treat Baidu General Business as the reportable segment; use Baidu Core wording only when quoting older releases or internal management-account disclosures.
AI-powered Business is management-account disclosure	Use for mix and growth context; do not sum it as a third reportable segment.
FY2021-FY2022 reportable segment history in current taxonomy not included in QF	Keep current-taxonomy segment tables to FY2023-FY2025 and disclose the limitation.
FMP current-quarter rows are USD-sized while labeled CNY	Official Baidu releases control Q2 2025 through Q1 2026 TTM values.
FMP quarterly product segmentation is stale	Do not build quarterly product revenue from FMP product endpoint.

2. Consolidated Historicals

The table below uses live FMP annual pulls for the five-year consolidated template and ties FY2025 revenue to QF. The QF remains controlling for current-quarter and TTM values. Capex is shown as positive cash outflow. ROIC is a D-package calculation using operating income after tax divided by live FMP invested capital; it is included for comparability but should not replace the synthesis model's later normalized ROIC work.

Metric	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	124.493	123.675	134.598	133.125	129.079	Live FMP annual income statement; FY2025 ties QF
Operating income	10.518	15.911	21.856	21.270	-5.823	Live FMP annual income statement; FY2025 ties QF P2
Operating margin	8.4%	12.9%	16.2%	16.0%	-4.5%	Calculated
Net income attributable / net income	10.226	7.559	20.315	23.760	5.589	Live FMP annual income statement
EPS diluted per ADS	28.08	19.84	55.12	65.92	11.76	Live FMP annual income statement
Diluted ADS count	351.8	351.1	354.6	349.8	343.0	Live FMP annual income statement
Capex	11.240	8.393	11.295	8.134	13.417	Live FMP annual cash flow
FCF	8.882	17.777	25.320	13.100	-16.430	Live FMP annual cash flow
Effective tax rate	29.6%	25.5%	14.5%	15.5%	18.7%	Live FMP ratios
Invested capital	216.422	211.132	236.426	173.879	147.170	Live FMP key metrics
ROIC	3.4%	5.6%	7.9%	10.3%	-3.2%	D calc: operating income x (1 - tax rate) / invested capital

ROIC calculation note: FY2025 NOPAT equals RMB-5.823bn operating income multiplied by one minus the 18.7% effective tax rate, or approximately RMB-4.731bn. Dividing by FMP invested capital of RMB147.170bn gives -3.2%. This is mechanically correct but economically distorted by the Q3 2025 RMB16.190bn long-lived asset impairment. QF separately provides an ex-impairment operating income view for the TTM window and cautions not to treat it as GAAP.

TTM ending March 31, 2026 from QF:

Metric	Q2 2025	Q3 2025	Q4 2025	Q1 2026	TTM
Revenue	32.713	31.174	32.740	32.075	128.702
Operating income	3.277	-15.091	1.483	3.193	-7.138
Net income attributable to Baidu	7.322	-11.232	1.782	3.445	1.317
Operating cash flow	-0.877	1.256	2.609	2.670	5.658

TTM caution: reported TTM operating income is negative because Q3 2025 includes a RMB16.190bn impairment of long-lived assets. Downstream forward work should explicitly decide whether and how to normalize this impairment, rather than silently averaging it away.

3. Segment Historicals

Only FY2023-FY2025 are included for reportable segment histories because QF provides the current reportable segment table for those years. FY2021-FY2022 current-taxonomy segment dollar figures are not in QF and are not recreated here.

Baidu General Business:

Baidu General Business	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	N/A	N/A	103.465	104.712	102.485	QF P2, 2025 Form 20-F
YoY	N/A	N/A	N/A	1.2%	-2.1%	D calc
Operating income	N/A	N/A	18.825	19.478	-6.044	QF P2, 2025 Form 20-F
Operating margin	N/A	N/A	18.2%	18.6%	-5.9%	D calc

iQIYI:

iQIYI	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	N/A	N/A	31.873	29.225	27.290	QF P2, 2025 Form 20-F
YoY	N/A	N/A	N/A	-8.3%	-6.6%	D calc
Operating income	N/A	N/A	2.989	1.811	0.229	QF P2, 2025 Form 20-F
Operating margin	N/A	N/A	9.4%	6.2%	0.8%	D calc

Intersegment eliminations:

Intersegment eliminations	FY2021	FY2022	FY2023	FY2024	FY2025	Source
Revenue	N/A	N/A	-0.740	-0.812	-0.696	QF P2
Operating income	N/A	N/A	0.042	-0.019	-0.008	QF P2

Segment tie-out:

Year	BGB revenue	iQIYI revenue	Eliminations	Consolidated revenue	Revenue gap	BGB OI	iQIYI OI	Elim OI	Consolidated OI	OI gap
FY2023	103.465	31.873	-0.740	134.598	0.000	18.825	2.989	0.042	21.856	0.000
FY2024	104.712	29.225	-0.812	133.125	0.000	19.478	1.811	-0.019	21.270	0.000
FY2025	102.485	27.290	-0.696	129.079	0.000	-6.044	0.229	-0.008	-5.823	0.000

4. Product And Subsegment Historicals

Baidu separately discloses limited product or management-account dollar figures. The finest audited dollar split in QF is reportable segment revenue. The finest annual product/type split available in QF is online marketing services and other revenue for FY2025. AI Cloud Infra, AI Applications, AI-native Marketing Services, and Legacy Business are disclosed as management-account lines in recent releases; they should be treated as disclosed context, not audited standalone segments.

Products and subsegments with dollar disclosure:

Segment	Product or line	What it is	Dollar disclosure?	Historical dollars and source
Baidu General Business	Online Marketing Services	Search, feed, and other online marketing revenue	Yes, revenue type	FY2025 RMB67.837bn; Q1 2026 RMB12.6bn; QF P1 and Q1 2026 release
Baidu General Business and consolidated	Other revenue	Mixed line including cloud services and iQIYI membership services at the consolidated revenue-type level	Yes, revenue type	FY2025 RMB61.242bn; QF P1
Baidu General Business	Baidu Core AI-powered Business	Management-account aggregation of AI Cloud Infra, AI Applications, and AI-native Marketing Services	Yes, internal management accounts	FY2025 RMB40.0bn, up 48%; Q1 2026 RMB13.6bn, up 49%; Baidu Q4 and Q1 releases
Baidu General Business	AI Cloud Infra	AI infrastructure and platform services within AI cloud	Yes, internal management accounts	FY2025 RMB19.8bn, up 34%; Q1 2026 RMB8.8bn, up 79%; Baidu Q4 and Q1 releases

Segment	Product or line	What it is	Dollar disclosure?	Historical dollars and source
Baidu General Business	AI Applications	AI-native or AI-powered products such as Wenku, Drive, digital employee, Miaoda, Famou	Yes, internal management accounts	FY2025 RMB10.2bn, up 5%; Q1 2026 RMB2.5bn, flat YoY; Baidu Q4 and Q1 releases
Baidu General Business	AI-native Marketing Services	Agents and digital humans used in online marketing	Yes, internal management accounts	FY2025 RMB9.8bn, up 301%; Q1 2026 RMB2.3bn, up 36%; Baidu Q4 and Q1 releases
Baidu General Business	Legacy Business	Mainly traditional advertising services across Search, Feed, and other properties	Yes, internal management accounts from Q4 2025 onward	Q1 2026 RMB10.2bn, down 29%; Baidu Q1 2026 release
iQIYI	iQIYI segment	Video membership, advertising, content distribution, and other iQIYI revenues	Yes, reportable segment	FY2025 RMB27.290bn; TTM RMB26.330bn; QF P2 and P4
Baidu General Business	Apollo Go	Autonomous ride-hailing	Operational rides disclosed, revenue not separately disclosed in QF	No revenue dollars in QF; use ride volumes and management commentary only
Baidu General Business	GPU Cloud	Renamed subscription-based AI accelerator infrastructure	Growth rates disclosed, limited dollar disclosure within AI Cloud Infra	Q1 2026 GPU Cloud +184% YoY; Q4 2025 +143% YoY; Baidu releases

Products with only growth rates or operational metrics:

Segment	Product	Disclosure method	Last four quarters YoY or operating trend	Source
BGB	GPU Cloud / AI accelerator infrastructure	YoY growth, inside AI Cloud Infra	Q2 2025 over 50%; Q3 2025 128%; Q4 2025 143%; Q1 2026 184%	Baidu Q2-Q1 releases and transcripts
BGB	Apollo Go	Fully driverless rides and cumulative rides	Q2 2025 2.2m rides, +148%; Q3 2025 3.1m, +212%; Q4 2025 3.4m, +200% plus; Q1 2026 3.2m, +120% plus	Baidu Q2-Q1 releases
BGB	AI Search	Search-result coverage and user metrics	Q2 2025 AI-generated content exceeded 50% of mobile search result pages by June and 64% by July; Q3 roughly 70%; Q1 2026 ERNIE Assistant DAU nearly doubled YoY per transcript	Baidu Q2-Q1 releases and transcripts
BGB	Agents and digital humans	Revenue and adoption metrics	Q2 agents contributed 13% of Baidu Core online marketing revenue and digital humans 3%; Q3 AI-native marketing RMB2.8bn, +262%; Q1 2026 RMB2.3bn, +36%	Baidu Q2-Q1 releases
BGB	Miaoda / MeDo	User and app creation metrics	Q2 users created around 200,000 apps; Q4 global users created over 1m apps as of early February; Q1 MAU +70% QoQ in March per transcript	Baidu transcripts
BGB	Kunlunxin	Strategic and chip deployment commentary	Proposed spin-off and separate listing announced in Q4 2025; Q1 2026 transcript says customer demand expanding across industries	Baidu Q4 release and Q1 transcript

No back-solved product dollar rows are included. Where Baidu discloses growth but not dollars, the package preserves the growth-rate form and flags the absence of revenue dollars.

5. Most Recent Quarterly Trend

Company FY ends December 31. Most recently completed fiscal quarter at time of writing: FY2026 Q1, covering January 1 to March 31, 2026, reported on May 18, 2026 via https://ir.baidu.com/news-releases/news-release-details/baidu-announces-first-quarter-2026-results/.

Reportable segment quarterly trend from QF:

Quarter	BGB revenue	BGB YoY or QoQ	BGB operating margin	iQIYI revenue	iQIYI trend	iQIYI operating margin	Source
Q2 2025	26.251	Revenue down 2% YoY for Baidu Core per release	12.7%	6.628	Not separately stated in QF	-0.7%	QF P4 and Q2 release
Q3 2025	24.659	Revenue down 7% YoY	-60.7%	6.682	Revenue down 8% YoY	-1.8%	QF P4 and Q3 release
Q4 2025	26.112	Up 6% QoQ	5.5%	6.794	Not separately stated in QF	0.8%	QF P4 and Q4 release
Q1 2026	26.001	Up 2% YoY; flat QoQ	13.1%	6.226	Down 8% QoQ	-3.7%	QF P4 and Q1 release
TTM	103.023	N/A	-6.6%	26.330	N/A	-1.3%	QF P4

Selected product / management-account quarterly trend:

Quarter	AI Cloud Infra	AI Applications	AI-native Marketing Services	Legacy / Online Marketing	Apollo Go	Source
Q2 2025	AI cloud revenue RMB6.5bn, +27% YoY	Not separately dollar-disclosed in QF	Agents 13% of online marketing revenue; digital humans 3%	Online marketing RMB16.2bn, down 15% YoY	2.2m fully driverless rides, +148% YoY	Q2 release and transcript
Q3 2025	RMB4.2bn, +33% YoY	RMB2.6bn, +6% YoY	RMB2.8bn, +262% YoY	Online marketing RMB15.3bn, down 18% YoY	3.1m rides, +212% YoY	Q3 release
Q4 2025	RMB5.8bn; FY2025 RMB19.8bn, +34%	RMB2.7bn; FY2025 RMB10.2bn, +5%	RMB2.7bn; FY2025 RMB9.8bn, +301%	Legacy business RMB12.3bn, disclosed in AI-native table	3.4m rides, +200% plus YoY	Q4 release and transcript
Q1 2026	RMB8.8bn, +79% YoY	RMB2.5bn, flat YoY	RMB2.3bn, +36% YoY	Online marketing RMB12.6bn, down 22%; Legacy RMB10.2bn, down 29%	3.2m rides, +120% plus YoY; cumulative rides above 22m as of April	Q1 release

Recency interpretation: the largest reportable segment returned to modest positive YoY growth in Q1 2026, but the mix did the work. Online marketing continued to fall sharply, while "Others" inside Baidu General Business rose 42% YoY in Q1, mainly from AI cloud. This is the central modeling issue for downstream subagents: the core question is whether AI Cloud Infra, AI applications, and AI-native marketing can grow large enough and profitable enough to offset continued erosion in legacy search advertising.

6. Management Commentary On Forward Growth

This section uses short excerpts and paraphrases from live FMP transcripts and Baidu IR releases. Transcript dates fetched in this run: Q2 2025 call dated 2025-08-20, Q3 2025 call dated 2025-11-18, Q4 2025 call dated 2026-02-26, and Q1 2026 call dated 2026-05-18.

Baidu General Business And AI Cloud Infra

Period	Speaker	Topic	Short quote or paraphrase	Modeling implication
Q1 2026 call, 2026-05-18	Robin Li, CEO	AI mix	Short excerpt: "AI has become the core driver of Baidu."	Management is explicitly repositioning Baidu General Business from ad-led to AI-led.
Q1 2026 call, 2026-05-18	Robin Li, CEO	AI Cloud Infra	Revenue from AI Cloud Infra grew well above the broader market; demand came from training and inference workloads, with inference ramping fast.	AI Cloud Infra should not be modeled as generic low-growth cloud; management claims AI workload demand is the driver.
Q1 2026 call, 2026-05-18	Henry Haijian He, CFO	Margin	Short excerpt: "GPU Cloud usually carries better margin profiles."	The mix shift toward GPU Cloud could improve cloud margins if utilization and pricing hold.
Q4 2025 call, 2026-02-26	Dou Shen, EVP	2026 cloud outlook	Management said enterprise AI deployments are deepening and that AI accelerator infrastructure should remain a core driver of cloud growth.	Forward BGB revenue assumptions need a high-growth AI infra line but also a check on compute capacity and capex.

Period	Speaker	Topic	Short quote or paraphrase	Modeling implication
Q3 2025 call, 2025-11-18	Dou Shen, EVP	Demand sustainability	Management said AI-centric cloud demand is broad-based across internet, automotive, embodied AI, public sector, financial services, and utilities.	Customer diversity helps the durability argument, but the company still discloses limited backlog or retention data.
Q2 2025 call, 2025-08-20	Dou Shen, EVP	Revenue quality	Enterprise cloud subscription revenue accounted for more than half of enterprise cloud revenue and grew steadily; project revenue may be reduced over time for stability.	Model revenue quality separately from total cloud growth; project reduction may reduce volatility but can dampen reported growth.
Q1 2026 call, 2026-05-18	Dou Shen, EVP	Kunlunxin	Management described Kunlunxin as part of Baidu's full-stack AI infrastructure and said customer adoption is expanding across industries.	Domestic chip capability is a strategic cost/supply hedge, not yet a separately modeled public equity value unless spin-off proceeds.
Q4 2025 release and call	Management	Kunlunxin spin-off	Baidu announced proposed spin-off and separate listing of Kunlunxin and framed it as value-unlocking after more than a decade of chip investment.	Capital allocation and sum-of-parts analysis should track listing progress, retained ownership, and customer concentration.

AI Applications, ERNIE, Search, Agents, And Digital Humans

Period	Speaker	Topic	Short quote or paraphrase	Modeling implication
Q1 2026 call, 2026-05-18	Robin Li, CEO	ERNIE	Management said it will keep iterating ERNIE around AI Search, digital humans, Miaoda, and Famou Agent.	Model investment is application-led rather than purely model-leaderboard-led.
Q4 2025 call, 2026-02-26	Robin Li, CEO	AI strategy	Short excerpt: "applications matter more than models."	Revenue value capture is expected in applications, not only model access or API pricing.
Q3 2025 call, 2025-11-18	Robin Li, CEO	ERNIE 5.0	Management said ERNIE 5.0 was designed for omni-modal understanding, creative writing, instruction following, and portfolio use cases such as digital humans and agents.	Treat ERNIE primarily as enabling technology for search, cloud, and applications.
Q2 2025 call, 2025-08-20	Julius Rong Luo, EVP	AI search monetization	Short excerpt: "user experience remaining our top priority."	Near-term ad revenue pressure is intentional; monetization is delayed until AI search experience stabilizes.
Q2 2025 call, 2025-08-20	Julius Rong Luo, EVP	AI search model	Management described a move from static links toward structured, multimodal, AI-generated responses, then toward task completion and service connection.	Legacy search monetization assumptions should not extrapolate old CPC economics without pressure.
Q3 2025 call, 2025-11-18	Henry Haijian He, CFO	AI-native marketing	AI-native marketing services reached 18% of Baidu Core online marketing revenue in Q3, up from 4% a year earlier, according to the call.	This is a key offset to legacy advertising decline, but still inside the shrinking broader ad pool.
Q1 2026 call, 2026-05-18	Robin Li, CEO	Agent monetization	Management said token pricing is common today but future AI application monetization should be broader and more results-oriented.	Long-term monetization may shift from usage to outcome or productivity value, but pricing remains early.
Q1 2026 release	Baidu	AI Applications	Q1 AI Applications revenue was RMB2.5bn, approximately flat YoY, despite many product launches.	Not all AI application activity is already translating into growth; avoid assuming every launch becomes revenue.

Apollo Go And Robotaxi

Period	Speaker	Topic	Short quote or paraphrase	Modeling implication
Q1 2026 call, 2026-05-18	Robin Li, CEO	Scale	Apollo Go completed more than 22m cumulative rides as of April 2026 and expanded across key overseas markets.	Operational scale is real, but revenue is not separately disclosed in QF.
Q1 2026 call, 2026-05-18	Robin Li, CEO	Unit economics	Management said Apollo Go had achieved unit-economics break-even in its largest operational city in China despite low fares.	Segment B should test economics city by city; reported proof point is not consolidated profitability.
Q4 2025 call, 2026-02-26	Robin Li, CEO	Global expansion	Management said robotaxi is at a tipping point globally and highlighted partnerships and right-hand-drive experience.	Overseas expansion could raise fare economics but adds regulatory and operational execution risk.
Q3 2025 call, 2025-11-18	Robin Li, CEO	Data scale	Management said ride scale produces corner-case data that improves models and safety.	Scale is a data moat argument; it does not automatically imply near-term earnings contribution.
Q2 2025 call, 2025-08-20	Robin Li, CEO	Cost structure	Management described RT6 as a purpose-built L4 vehicle with a cost advantage and cited Wuhan break-even.	The robotaxi thesis rests on vehicle cost, utilization, fare levels, and regulatory permission.
Uber release, 2026-02-10	Uber and Baidu	Dubai	Baidu and Uber announced Apollo Go autonomous ride-hailing on Uber in Dubai, aligned with Dubai's autonomous transportation target.	Supports international validation and partner-led distribution but not yet a revenue disclosure.
Lyft release, 2025-08-04	Lyft and Baidu	Europe	Lyft and Baidu announced plans to deploy Apollo Go rides in Europe, starting with Germany and the UK pending approvals.	Europe is a future option, not current reported revenue.

iQIYI

Period	Speaker	Topic	Short quote or paraphrase	Modeling implication
Q1 2026 release	Baidu	iQIYI revenue	iQIYI revenue was RMB6.2bn in Q1 2026, down 8% QoQ.	iQIYI remains a drag on consolidated growth in the latest quarter.
Q3 2025 release	Baidu	iQIYI revenue	iQIYI revenue was RMB6.7bn in Q3 2025, down 8% YoY.	Revenue pressure is persistent; margin stabilization rather than growth should be tested.
QF P4	Quant foundation	iQIYI TTM	iQIYI TTM revenue was RMB26.330bn and TTM operating loss was RMB0.341bn.	Downstream segment work should not assume iQIYI is a growth engine unless it can identify new evidence.
Q4 2025 annual table	Baidu	iQIYI annual	FY2025 iQIYI revenue was RMB27.290bn and operating income RMB0.229bn.	iQIYI barely profitable at the operating line in FY2025.

Balance Sheet, Capex, And Shareholder Return

Period	Speaker	Topic	Short quote or paraphrase	Modeling implication
Q1 2026 call, 2026-05-18	Henry Haijian He, CFO	AI investment funding	Management said Baidu can support AI investment through operating cash flow, leases, borrowings, and a large cash position.	AI capex can continue without immediate liquidity stress, but ROIC must absorb higher capital intensity.
Q4 2025 call, 2026-02-26	Henry Haijian He, CFO	Capital returns	The board approved a new US$5bn share repurchase program and adopted Baidu's first dividend policy.	Buybacks and dividends now matter in per-ADS EPS modeling.
Q1 2026 release	Baidu	Buybacks	Baidu returned US$172m to shareholders in Q1 2026 through repurchases.	Actual repurchase pace should be tracked against the US$5bn authorization.

Period	Speaker	Topic	Short quote or paraphrase	Modeling implication
Q3 2025 call, 2025-11-18	Henry Haijian He, CFO	Margins	Short excerpt: "Q3 represents a low point for margins."	Management wants investors to normalize Q3 impairment and AI-search pressure, but proof is still developing.
Q3 2025 release	Baidu	Impairment	Q3 included RMB16.190bn impairment of long-lived assets attributable to core asset group.	Treat FY2025 reported OI as impaired; bear/base/bull scenarios must explicitly handle it.

7. Capital Allocation History

Capex, FCF, buybacks, and M&A rows use live FMP annual cash flow. R&D uses QF official annual data where available for FY2023-FY2025 and live FMP for FY2021-FY2022. Buybacks are shown as positive cash outflows. M&A is shown as acquisition cash flow magnitude; negative FMP acquisitions rows are cash paid.

Year	Capex	Capex / revenue	R&D	R&D / revenue	Buybacks	Dividends	M&A cash flow	Source
FY2021	11.240	9.0%	24.938	20.0%	7.581	0.000	12.282 paid	Live FMP annual cash flow and income statement
FY2022	8.393	6.8%	23.315	18.9%	1.925	0.000	0.256 received / minor	Live FMP annual cash flow and income statement
FY2023	11.295	8.4%	24.192	18.0%	4.764	0.000	0.115 paid	Live FMP cash flow; QF P2 for R&D
FY2024	8.134	6.1%	22.133	16.6%	6.324	0.000	8.438 received / FMP sign caveat	Live FMP cash flow; QF P2 for R&D
FY2025	13.417	10.4%	20.433	15.8%	5.385	0.000	0.000	Live FMP cash flow; QF P2 for R&D

Capital allocation interpretation:

Item	Evidence	Modeling treatment
AI investment intensity	Q4 2025 transcript says Baidu has invested more than RMB100bn in AI since ERNIE launched in March 2023 and will maintain investment density.	Model capex and leases as structurally elevated, not a temporary one-quarter spike.
Operating cash flow volatility	FY2025 operating cash flow was negative in live FMP annual data; QF TTM OCF to Q1 2026 was positive RMB5.658bn.	Use TTM trend for recovery, but do not ignore FY2025 cash burn.
Shareholder return shift	Q4 2025 introduced US$5bn buyback and first dividend policy; Q1 2026 repurchased US$172m.	Per-ADS modeling should include share count reduction but not assume the full authorization executes immediately.
Kunlunxin spin-off	Proposed spin-off and separate listing announced in Q4 2025.	Potential value unlock; not yet realized cash or earnings.

8. Balance Sheet Snapshot

Q1 2026 balance sheet rows use QF P6 unless noted. Debt sums include short-term loans, current portion of long-term loans, current notes payable, long-term loans, notes payable, and convertible senior notes. Net cash is shown both narrowly and on Baidu's company-defined total cash and investments basis.

Item	Amount	Source
Cash and cash equivalents	29.948	QF P6, Q1 2026 release
Restricted cash	0.584	QF P6, Q1 2026 release
Short-term investments, net	86.942	QF P6, Q1 2026 release
Long-term time deposits and held-to-maturity investments	116.390	QF P6, Q1 2026 release
Long-term investments, net	42.944	QF P6, Q1 2026 release
Company-defined total cash and investments	279.300	QF P6, Q1 2026 release

Item	Amount	Source
Total debt, current plus long-term	86.796	D calc from QF P6
Net debt / cash using cash plus restricted cash plus ST investments	-30.678	D calc
Net debt / cash using company-defined total cash and investments	-192.504	D calc
Net debt / EBITDA	N/M, net cash	D calc
Goodwill plus intangibles	46.637	Live FMP FY2025 balance sheet; latest annual cross-check
Baidu shareholders' equity	268.886	QF P6, Q1 2026 release
Tangible book value, approximate	222.249	D calc using Q1 equity less FY2025 goodwill and intangibles

Share count and ADS details:

Period	Basic ordinary shares	Diluted ordinary shares	ADS equivalent at 8 ordinary shares per ADS	Diluted EPS per ADS	Source
Q4 2025	2,721m	2,758m	344.8m	RMB3.71	QF P6
Q1 2026	2,721m	2,764m	345.5m	RMB8.76	QF P6 and Q1 release
TTM reference	N/A	2,764m latest	345.5m	RMB3.81 on latest-share net income base	QF P6

Balance sheet interpretation: Baidu has large gross debt, but its liquid and investment resources exceed debt by a wide margin even on a narrow cash plus restricted cash plus short-term investments definition. This gives management room to fund AI infrastructure and shareholder returns, but it does not solve the ROIC question. If AI infrastructure assets are impaired again or earn subscale returns, the cash-rich balance sheet cushions downside without proving compounder quality.

9. Recent Corporate Actions And External Context

Recent corporate actions and strategic events:

Date	Action or event	Source	Relevance
2025-08-20	Henry Haijian He participated as Baidu CFO on the Q2 2025 call after recently joining the company.	Q2 2025 transcript	CFO transition matters for capital allocation, disclosure, and shareholder return framing.
2025-08-04	Lyft and Baidu announced a partnership to deploy Apollo Go autonomous rides across Europe, starting with Germany and the UK pending regulatory approval.	Lyft investor release	Supports international robotaxi option value, but it is contingent on approvals.
2025-11-18	Baidu introduced a new AI-native investor view covering AI Cloud Infra, AI Applications, and AI-native Marketing Services.	Q3 2025 release	Improves disclosure but also creates taxonomy risk if confused with reportable segments.
2025-11-18	Baidu recorded RMB16.190bn impairment of long-lived assets.	Q3 2025 release and QF	Explains FY2025 operating loss and signals AI infrastructure asset transition risk.
2026-02-26	Baidu announced proposed spin-off and separate listing of Kunlunxin.	Q4 2025 release	Potential value-unlocking event and strategic AI supply-chain signal.
2026-02-26	Baidu announced new US$5bn share repurchase program and first dividend policy.	Q4 2025 release and transcript	Raises shareholder return visibility.
2026-02-10	Baidu and Uber announced Apollo Go autonomous ride-hailing on Uber in Dubai with Dubai RTA.	Uber investor release	Validates international partner-led rollout.
2026-05-18	Q1 2026 results showed Baidu General Business returned to positive YoY revenue growth and AI-powered business exceeded half of BGB revenue.	Q1 2026 release	Confirms mix transition is now majority of BGB revenue.
2026 Q1	Baidu repurchased US$172m of shares.	Q1 2026 release	Evidence of buyback execution after new capital return framework.

China macro and regulatory context:

Context	Evidence	Baidu impact
China GDP	NBS preliminary accounting for Q1 2026 reported GDP data in April 2026; the State Council/NBS summary reported 5.0% YoY GDP growth.	Macro is not in collapse, but ad budgets can remain soft if consumer confidence and business formation lag headline GDP.
Retail and online consumption	NBS January-April 2026 retail release reported online retail sales of goods and services up 6.6% YoY.	Supports e-commerce and digital ad pools, but Baidu's own online marketing line declined sharply, implying share / format / monetization pressure.
Generative AI regulation	China's 2023 generative AI rules and algorithm / deep synthesis governance remain relevant for public-facing AI services.	ERNIE, AI Search, digital humans, and agents must operate within content, security, registration, and data governance constraints.
Autonomous driving regulation	Apollo Go expansion in Dubai, Europe, Hong Kong, and Switzerland depends on local road-testing and commercial-operation approvals.	International Apollo Go forecasts should be staged by regulatory clearance, not only partnership announcements.
U.S. export controls / China AI chips	Baidu is emphasizing Kunlunxin and heterogeneous compute because high-end AI chip access and domestic supply remain strategic issues.	Compute availability and cost are major variables for AI Cloud Infra growth and margin.

10. Open Data Gaps

Gap	Why it matters	Treatment
Product-level dollars before FY2025 are limited in QF	The D template asks for granular product history, but QF only provides annual FY2025 product/type dollars and recent management-account lines.	No invented product dollars; use reportable segments and disclosed management-account rows only.
FY2021-FY2022 current-taxonomy segment values not in QF	Five-year segment tables cannot be completed without leaving QF as the single historical source.	Mark FY2021-FY2022 segment rows N/A and keep current-taxonomy comparison to FY2023-FY2025.
FMP current-quarter statements are unreliable in RMB units	QF found revenue and operating-income rows were USD-sized while labeled CNY.	Official releases control Q2 2025 through Q1 2026.
FMP quarterly revenue-product segmentation is stale	Endpoint returned 2018-2020 rows only for current TTM use.	Do not use for Q2 2025-Q1 2026 product history.
Apollo Go revenue not separately disclosed in QF	Robotaxi is strategically important but not separately monetized in reportable segment data.	Use ride, city, and partnership data; avoid revenue estimates unless a later segment subagent builds a clearly labeled scenario.
AI Cloud Infra margins not separately disclosed	Management says GPU Cloud has better margins, but segment P&L is only Baidu General Business.	Model margin uplift as an assumption with sensitivity, not a disclosed fact.
iQIYI forward guidance is sparse in Baidu calls	Baidu releases provide revenue and operating result but limited forward strategy detail.	Treat iQIYI as a mature / pressured segment unless separate iQIYI filings provide better evidence.
Goodwill and intangibles latest quarter not in QF	QF Q1 balance sheet did not list goodwill and intangibles.	Use live FMP FY2025 annual balance sheet as a cross-check and flag as latest annual, not Q1.
Share repurchase execution pace unknown	New US$5bn program does not specify guaranteed execution schedule.	Use observed Q1 2026 US$172m repurchase pace as evidence; scenario-test faster buyback separately.

11. Downstream Key Facts

Fact	Why downstream agents need it
TTM revenue is RMB128.702bn and reported TTM operating income is RMB-7.138bn.	The TTM base includes a major Q3 impairment; forward forecasts must normalize explicitly if they normalize at all.
FY2025 reportable revenue mix was 79.4% Baidu General Business and 21.1% iQIYI before eliminations.	Segment B work should start with BGB and iQIYI, not AI Cloud as a separate audited segment.
Q1 2026 BGB revenue returned to +2% YoY while online marketing fell 22% and Others rose 42%.	The pivot is real in mix terms; the ad decline is also real.
AI-powered Business was 52% of BGB revenue in Q1 2026, with AI Cloud Infra up 79% YoY.	The growth engine is now majority of BGB revenue on management-account basis.
Q1 2026 company-defined cash and investments were RMB279.3bn versus D-calculated total debt of RMB86.8bn.	Liquidity is strong; the investment question is return on capital, not solvency.
Apollo Go reached more than 22m cumulative rides by April 2026 and operates/expands through international partnerships, but revenue is not disclosed separately.	Robotaxi option value should be modeled as optionality or scenario revenue, not a historical segment.
Baidu announced a US$5bn repurchase program, first dividend policy, and proposed Kunlunxin spin-off in Q4 2025.	Capital allocation and per-ADS modeling changed materially in the last two quarters.