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SOHU - Q1 2018 Sohu.Com Inc Earnings Call

EVENT DATE/TIME: APRIL 25, 2018 / 12:30PM GMT

OVERVIEW:

SOHU reported 1Q18 total revenues of \$455m. Expects 2Q18 total revenues to be \$485-510m and GAAP loss per fully-diluted share to be \$1.44-1.70.



CORPORATE PARTICIPANTS

Charles Zhang *Sohu.com Inc. - Chairman & CEO*

Eric Yuan

Joanna Lv *Sohu.com Inc. - CFO & Principal Accounting Officer*

Yi Zhou *Sogou Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

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Yiu Hung Chong *Crédit Suisse AG, Research Division - Regional Head of Internet*

Yue Wu *China International Capital Corporation Limited, Research Division - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and good evening. Thank you for joining Sohu's First Quarter 2018 Earnings Conference Call. (Operator Instructions) Today's conference call is being recorded. If you have any objections, you may disconnect at this time.

I'd now like to turn the conference over to your host for today's conference call, Eric Yuan, Investor Relations Director of Sohu. Please go ahead, sir.

Eric Yuan

Okay. Thanks, operator. Thank you for joining us today to discuss Sohu's first quarter 2018 results. On the call are Chairman and CEO, Dr. Charles Zhang; CFO, Joanna Lv. Also with us today are Changyou's CEO, Dewen Chen; and CFO, Yaobin Wang; and Sogou's CEO, Xiaochuan Wang; and CFO, Joe Zhou.

Before management begins their prepared remarks, I would like to remind you of the company's safe harbor statement in connection with today's conference call. Except for the historical information contained herein, the matters discussed in this conference call are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore, you should not place undue reliance on them. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. For more information about the potential risks and uncertainties, please refer to the company's filings with the Securities and Exchange Commission, including its registration statement and the most recent annual report on Form 10-K.

With that, I will now turn the call over to Dr. Charles Zhang. Charles, please proceed.



Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Thank you, Eric. Thanks to everyone for joining our call. We started 2018 steadily as we delivered better-than-expected top line growth in the first quarter, mainly driven by the solid performance of our search and online game businesses. Total revenues reached \$455 million, up 22% year-over-year.

For Sohu.com, our media and video businesses, we have sharpened our focus on key mobile products as we aim to grow the user base and ramp up monetization. At the same time, we're streamlining our organization and significantly reducing video content costs. We believe that these measures will help improve our bottom line results in upcoming quarters.

Sogou's core search revenues rose over 50% year-over-year. During the first quarter, Sogou Mobile Keyboard added 30 million new users, bringing the total DAU to 362 million. For Changyou, thanks to the contribution of its flagship PC and mobile TLBB games, revenues and adjusted profits both topped expectations. Changyou also declared a \$500 million special cash dividend to its shareholders in early April.

Before I give more details about our key businesses, let me summarize our financial results for the first quarter. Total revenues, \$455 million, up 22% year-over-year and down 11% quarter-over-quarter; net Brand Advertising revenue of \$56 million, down 31% year-over-year and 22% quarter-over-quarter; search and search-related advertising revenues, \$222 million, up 55% year-over-year and down 11% quarter-over-quarter; online game revenues, \$105 million, up 24% year-over-year and down 4% quarter-over-quarter.

Now let me go through some of the key businesses. First of all, the media portal business. For the 2018, reviving the revenue growth of Sohu Media Portal is our top priority to us. To achieve this goal, we have been continuously immersing in our user acquisition for our key mobile products and exploring ways to improve monetization. We have identified 3 areas to drive user growth: content, product design and its distribution. Now we have been working very hard on all of them.

For content, bringing best quality articles from outside resources, we have upgraded our revenue-sharing scheme with the third-party authors. On the product side, in the new version of Sohu News App, we redesigned the layout of home screen. Now original featured stories are displayed on the top of the screen with horizontal sliding design, while personally -- personalized content powered by algorithm is showing news feed and refreshed when users scroll down. We saw encouraging signs that the time spend and the page views of active users have -- being on an upward trajectory. Lastly, on the distribution side, we have worked closely with our key channel partners, including some major smartphone makers, to more aggressively promote our mobile news apps. We're delighted that we're gaining momentum for daily active users in the past few weeks.

In terms of monetization, we have improved our advertising systems to cover hundreds of SME customers. Now as our traffic continue to grow, we will also gradually increase the ad load. For the second quarter, we expect ad revenues for Sohu Media to rebound to 30% -- about 30% -- rebound 30% sequentially, and we expect an even stronger second half of 2018.

Moving to Sohu Video, a few months ago, we decided to stop acquiring new domestic TV head content and shifted our focus to original content and short-term video programs. The financial results for the first quarter have reflected that. Content costs were 45% lower than the same quarter -- same period -- same quarter last year. Operating loss for Sohu Video decreased by 32% from a year ago. We expect loss will continue to narrow over the rest of 2018.

In terms of original content, our strategy is to focus on these -- those projects where we believe they can attract audience with solid return on investment, ROI. We're actively developing original dramas based on well-recognized IP such as Your Highness, (foreign language); and Touch Me, (foreign language), both of which saw decent traffic in the first quarter. In the pipeline, the sequel of Medical Examiner Dr. Qin, (foreign language), is scheduled to broadcast in June. These dramas will help drive growth of our subscription business. In addition, we are also exploring opportunities to produce reality shows that target certain demographics. Take for example, we recently released a show, a low-cost show called [Hunter Goes Home], (foreign language), a low-cost production successfully made it into the top 5 in that category in terms of video views. And we were also able to sign sponsorship contracts with a few big brand advertisers for the show.

Next moving to Sogou, in the first quarter, Sogou posted better-than-expected revenue growth, benefiting from its top core search business. The DAU of Sogou Mobile Keyboard reached 360 million, up 41% from a year ago. For search, Sogou continued to make good progress to improve its search quality in key verticals, such as health care and education. For Sogou Mobile Keyboard, as one of the most popular mobile apps in China,

users on average spend more than an hour each day on it. We are exploring new ways to provide information and services that can satisfy user need.

Lastly for Changyou. In the first quarter, Changyou's game business continued to perform well and generated strong cash flow for PC games despite the soft seasonality due to the Chinese New Year. Holiday's revenues were flat quarter-over-quarter. In the second quarter, Changyou will launch an expansion pack for TLBB PC's 11-year anniversary. The new content and features will help stabilize user engagement in the coming quarters.

For mobile side, Legacy TLBB mobile experienced its first Chinese New Year since its launch. We released the 3 expansion packs that introduce the new holiday-related elements and game play for Valentine's Day and Spring Festival. For the second quarter, we focused on -- focused it to the 10 core users with new expansion packs, and we expect the revenue from this game to decrease at a slower rate.

Now let me turn the call to Joanna who'll work through with you financials results. Joanna?

Joanna Lv - *Sohu.com Inc. - CFO & Principal Accounting Officer*

Thank you, Charles. I will walk you through the key financials of our 4 major segments for the first quarter of 2018. All of the numbers that I will mention are all on a non-GAAP basis. You may find our reconciliation of non-GAAP to GAAP measures on our IR website. For Sohu Media Portal, revenues were \$31 million, down 18% year-over-year. The quarterly loss was \$29 million, which compares with a net loss of \$50 million in the first quarter of 2017. For Sohu Video, revenues were \$31 million, down 16% from a year ago. Of this, advertising revenues were \$30 million. The quarterly loss was \$48 million, which compares with a net loss of \$70 million in the same quarter last year. For Sogou, total revenues were \$248 million, up 53% year-over-year and down 11% quarter-over-quarter.

Net income was \$20 million, up from \$13 million in the same quarter last year. For Changyou, total revenue, including 17173, were \$137 million, up 14% year-over-year and down 5% quarter-over-quarter. Changyou posted a net loss of \$60 million compared with net income of \$35 million in the same quarter last year, exclude \$47 million withholding tax expense due to the dividends. Changyou's adjusted profit was \$31 million in the same -- in the first quarter of 2018.

For the second quarter of 2018, we expect total revenues to be between \$485 million and \$510 million, brand advertising revenues to be between \$65 million and \$70 million. This implies an annual decrease of 19% to 24% and a sequential increase of 16% to 24%. Sogou revenues to be between \$295 million and \$305 million. This implies annual increase of 40% to 45% and a sequential increase of 19% to 23%. Online game revenues to be between \$85 million and \$95 million. This implies an annual decrease of 22% to 31% and a sequential decrease of 10% to 19%. Before deducting the share of non-GAAP net income pertaining to noncontrolling interest, non-GAAP net loss to be between \$28 million and \$38 million. Assuming no new grants of share-based awards and market price of our share is unchanged and considering the impact of payments of special cash dividends from Changyou, we estimate that compensation expense relating to share-based awards will be around \$4 million. Including the impact of this share-based award, GAAP net loss before noncontrolling interest to be between \$32 million and \$42 million, non-GAAP net loss attributable to Sohu.com Inc. to be between \$55 million and \$65 million and non-GAAP loss per fully diluted share to be between \$1.40 and \$1.65, including the impact of aforementioned share-based award and the netting of \$3 million of Sohu's economic interest in Changyou and in Sogou. GAAP net loss attributable to Sohu.com Inc. to be between \$56 million and \$66 million and GAAP loss per fully diluted share to be between \$1.44 and \$1.70.

For the second quarter 2018 guidance, we use a presumed exchange rate of CNY 6.4 to \$1, which compares with actual exchange rate of around CNY 6.36 to \$1 for the first quarter of 2018 and CNY 6.86 to \$1 for the second quarter of 2017.

Lastly, we will like to remind you that we won't take questions regarding the Changyou's privatization proposal in the Q&A session. This concludes our prepared remarks. Operator, we would now like to open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Eddie Leung -- of Thomas Chong of Crédit Suisse.

Yiu Hung Chong - *Crédit Suisse AG, Research Division - Regional Head of Internet*

I have 2 questions. The first question is about the online video competitive landscape. Can Charles comment about how the competitive landscape will evolve given the 3 big players are competing on content and how we differentiate ourselves from competition given we are transforming, more focused on original content and then (inaudible) our losses? And my second question is about the news application market. Can Charles comment about how other peers like -- the news feed market like Toutiao and other competitors versus our application, how we differentiate from competitors?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Well, the first question about the [VTC] competition of new video, I think the big -- the 3 video players have been continuing to compete on very expensive content. Our strategy is to, first of all, to have in-house produced, more low cost but unique content but exclusive only on Sohu so that users -- we'll continue to get users. And also, we've been -- for the past few -- 4 years, we've been developing this PGC, professionally produced content. That already constitutes almost like 40% of our content. [They're all] kind of a -- in like 5 minutes or few minutes of knowledge-based video clips. So these all together combined and our overall video view, both the Sohu Video App and the H5 are not -- basically remain steady. And actually, we hope that it will grow instead of shrinking. So with our content strategy, basically with exclusive and unique content and also with the PGCs that's our -- we're not -- we're basically not buying those very extremely high expensive content.

Unidentified Company Representative

(foreign language)

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Yes. Because of -- yes, that's because of the content. Because the cost of the head content, we decided to stop buying. So the cost structure is improving. And I think we can compete without those highly expensive content. The second question about News App. So compared with our competitors, Sohu News is -- first of all, we've been improving the user -- the product design, also the algorithms. The algorithm is pretty good. But compared with the competitors, we are more a news instead of a more information. We have the information, but our brand name and also providing quality news is our hallmark or our competitive advantage. So that's why we see in the last few months or -- basically the consumption of both DAU and the page views have been steadily growing.

Operator

Our next question comes from the line of Eddie Leung of Merrill Lynch.

Eddie Leung - *BofA Merrill Lynch, Research Division - MD in Equity Research and Analyst*

Two questions, if I may. The first one is perhaps are for Xiaochuan. I'm curious that the (inaudible) on the first quarter's revenues. I've heard that you gave a few reasons in the previous Sogou earning call. But in hindsight, when you think about the first quarter, which factor actually surprised you most to the upside? So why the outcome would be materially better than your original guidance and perhaps your original expectations, so which factor actually is the key reason? And then secondly, perhaps more on the Sogou -- Sohu Group. We know that each subsidiaries, maybe the



media portal, the [king] company as well as Sogou subsidiary need certain artificial intelligence, engineering talents. So I'm just wondering as a group how you think about getting synergies across different teams, and these teams are perhaps assigned to different subsidiaries. So I don't know whether this is important or not, but just curious to hear perhaps, Charles, your thought on that.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Okay. Our CFO, Joe, will help me to answer the first question.

Yi Zhou - *Sogou Inc. - CFO*

Eddie, this is Joe. So for revenue -- so in U.S. dollars, Q1 revenue increased 53% year-over-year, so roughly 12 percentage points higher than the high end of our guidance. So among the 12%, exchange rate movement contributed 4%. So for the rest, 8 percentage points, it's coming from business reasons. So the main reason is the traffic growth was a couple of percentage points better than expected, thanks to more traffic acquired from online channels.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Okay. Your second question is about -- you mean the synergy between the subsidiaries or the engineers? Is that...

Eddie Leung - *BofA Merrill Lynch, Research Division - MD in Equity Research and Analyst*

The (inaudible) essentially on perhaps the AI teams, because typically, I guess, your people would like to have data centralized to a place, but you have different subsidiaries and each perhaps have their own data and perhaps have their own AI projects working on. So just wondering whether you think it's important perhaps to achieve synergies across different subsidiaries or it's actually not that important.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Well, the answer is, yes, very important, and we are doing that so because -- especially for the user information, user profile, like the -- there's a long-term inquiries and short-term inquiries, like the information stream and news. You provide a very short-term incident in a quick-through -- a quick stream information. [Well, often it is] provided by the keyboard method and others. So it is an advantage actually of Sohu Group that we have so many variety of properties that are collecting or recording people's behavior. So it's very important.

Operator

Our next question comes from the line of Han Joon Kim of Deutsche Bank.

Han Joon Kim - *Deutsche Bank AG, Research Division - VP and Research Analyst*

I just have one. I think, Charles, I think we talked about streamlining the organizations and so forth. So just wondering if we had some hard financial targets for that. If you could just kind of remind us the cash burn rate on the Sohu level and what kind of targets you want to see progressively over the next few quarters -- or a year or 2 that'll be great.



Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Well, yes, I think we are definitely looking at some kind of cost reduction, first of all, as I just said, on the video top content side and also on the personnel side because there's some overlapping functions and also some products, the development that are kind of far-fetched and not that strongly related to the business and to profit. And so we're looking at -- with this cost reduction, we are looking at the -- maybe 2019 Q1 or Q2 the whole group will be profitable. And then within 2019 media and video will be profitable. Yes, that's our goal, basically within the -- in the next 6 quarters.

Operator

Our next question comes from the line of Natalie Wu of CICC.

Yue Wu - *China International Capital Corporation Limited, Research Division - Analyst*

First one is about the video charges, just wondering what's your online content budget this year. And it will be great if you can help us to divide it into purchase content and (inaudible) related to content -- related budget? And also, second one is about the cash adequacy question. Just wondering, any plan for the company to divest some of your business in the near term to generate more adequate cash for your business?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

So the first question is about the content strategy on the video side, right?

Yue Wu - *China International Capital Corporation Limited, Research Division - Analyst*

Yes.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Yes. So as I said, we will not buy the top head content. We will produce our own content. That is about, let's see, CNY 100 million. And also the PGC side is really actually almost like free, but it is revenue sharing, about kind of CNY 80 million. So it's not -- so next year -- you're talking about 2019 or 2018? We're talking about CNY 200 million, right, for the whole video company?

Yi Zhou - *Sogou Inc. - CFO*

Okay. I will answer the -- your second question. I think, currently, the company does not have any plan to divide any major assets or business. As you know, Changyou just announced a special dividend and the Sohu received USD (inaudible) million in cash. So on the liquidation side, it went well at this time.

Operator

The next to ask the question is Alicia Yap of Citigroup.

Alicia Yap - *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

Charles, I wanted to follow up just now when you answered Natalie's question regarding the video content cost. Did you say 2018 total is CNY 200 million on the content cost?



Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

RMB.

Alicia Yap - *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

RMB. CNY 200 million for 2018. Okay. And then how much of that for 2017?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

No. Yes, for the in-house production of our content, it's about less than CNY 200 million, yes.

Alicia Yap - *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

I see. And then what about for license, are you still planning to do some licensing content?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Almost not.

Alicia Yap - *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

Okay. And so my follow-up question is on the video side is that given I think you guys have substantially decreased the content cost for the first quarter and you also see the [cost] reduced, on the others, have you seen any disadvantage by not competing for the license content? Have you seen your traffic drop because of that? So that's the video question that I have.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Actually, we are looking at a growth of DAU, and also H5 video views. Because, first of all, with a lower budget, we are generating some really unique content that is exclusive on our site, and so that we are getting users. And also, it is supplemented by this -- we spent 4 years to build this PGC. It's knowledge based, yes, basically all kind of -- it's like a directory of all kind of knowledge-based short clips. So we are not -- yes?

Alicia Yap - *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

No, no, no. Go ahead, yes.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

So maybe we are -- I don't know what -- our competitor definitely have a lot of -- more DAUs and I think is really burning money. What we can do is we will make sure that our DAU will not decrease but will continue to increase and so that -- and improve monetization, yes. And also new business model, yes, new -- some other new business models, not just this head content burning advertising subscription model.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

Yes. So since that you have been finding maybe a niche here, which is more in the middle, like a hybrid, which is the content maybe not as long in terms of the timing but then is also longer than the short-form video, so you probably find -- kind of like in the middle ground that you actually find some of the user that you attract to your PGC content. Am I fair to assume that?

Charles Zhang - Sohu.com Inc. - Chairman & CEO

Yes. I think we -- we make sure that every month we have a new drama or -- that we produce ourselves and only on -- and also supplement it with other short clips, smaller, shorter, short clips of knowledge-based PGC.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

I see. Okay, great. And my second question is actually regarding Sogou. So one or two follow-up on the previous caller mentioned about TAC increase. If you can share about the magnitude of the increase on the year-over-year basis? And I think on the previous call, you mentioned probably the TAC increase will continue for the rest of this year. I thought -- previously, we're probably thinking about the TAC increase is just temporary. So wanted to know, is that because of the competition level that we have to now expect the TAC increase will remain the rest of the year? And then second question on the Sogou part is that if management can give us the breakdown in terms of the contribution -- revenue contribution by the industry vertical, ranked by contribution and also ranked by the growth rate for this quarter.

Yi Zhou - Sogou Inc. - CFO

Alicia, this is Joe. So for TAC, we typically renew the contract with content manufacturer each year. So we have finished our negotiation with online channels. So on average, the price go up 60% comparing to last year. So for the rest of the year, the unit price will all be the same.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

So you mentioned 60, right, 6-0?

Yi Zhou - Sogou Inc. - CFO

Yes, 6-0, comparing to last year due to the competition from, say, smaller competitors.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

Okay. And then the industry vertical?

Yi Zhou - Sogou Inc. - CFO

Yes. It's the same as last quarter. So #1, still health care; and #2, e-commerce; and #3, gaming; and #4, business services, which is mainly those financial institutions, say, for example, insurance company; and #5, merchant services. It's the website for franchise. So all together, these top 5 verticals can be about 80% of our total auction-based pay-per-clicks revenue.

Operator

Our next question is from Ryan Roberts of MCM Partners.



Ryan Clifford Roberts - *MCM Asia Limited, Research Division - Senior Research Analyst*

I just want to actually just double back on the discussion real quick for the Brand Advertising, just kind of breaking that down. I think you mentioned earlier that the media portal revenue was \$31 million. What was that number for video? How does that balance out? And also, can you give us an idea -- I think you gave us a non-GAAP profit loss -- sort of loss for the quarter. Can you give us an idea of what the EBITDA margins are for those? So I'd just kind of get a sense of how much cash we're burning.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

The media is \$30 million -- yes, \$31 million. Video is not included. Video is -- advertising is like \$12 million, right?

Unidentified Company Representative

\$13 million.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Yes. So the total revenues for Sohu Video in the first quarter is \$31 million. And of that, about \$13 million was from advertising and the rest is from the other nonadvertising business.

Unidentified Company Representative

But the advertising for media and video is like \$40 something million -- \$44 million.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

\$44 million.

Ryan Clifford Roberts - *MCM Asia Limited, Research Division - Senior Research Analyst*

Yes, \$44 million. Yes, okay. okay. And so could you give us an idea -- because I'm just trying to get a sense of how the transition from the, I guess, the roll-off of cost on content, kind of where we are in terms of overall kind of cash burn situation. It looks like it's improving. And again, you gave us a net number. Can you give us maybe like an EBITDA number on that?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

(foreign language) Not the dimension we're looking at, but we're -- we don't have it in that amount.

Ryan Clifford Roberts - *MCM Asia Limited, Research Division - Senior Research Analyst*

Okay. And maybe to frame this question a slightly a different way. In terms of the -- turning back to your -- what you mentioned earlier, Charles, about the profitability outlook for '19. Can you give us a sense if kind of -- is that more a top line story? Obviously, it is. But vis-à-vis margin growth for your costs, are costs going to be pretty stable? Or how should we be looking at those shaping up?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Well, first of all, for the media business, we're looking at -- through our improvement out in the algorithm and the product and the smart channel marketing and also big data, so we are able to grow user base without much increasing distribution channel spending. And that means we're creating the inventories of advertising, basically information in the slot, the inventories without incurring much cost. That's the media side; and also on video so that we can sell more advertising, information stream advertising. And then there's -- on the video side, we already have this in-house production content with much lower cost of doing. We just make sure that every month we have a new drama, which costs about below CNY 20 million or -- and also the PGC, so not much cost. And at the same time, we are also improving the products, so that we create more -- also more inventories, not just the pre--- the 15-second pre-video advertising, but also the information stream advertising embedded in the video stream. So all these improvements and the sales so that -- basically, the cost structure improvement and also the top line revenue growth that we are looking at with the profitability of 2019.

Ryan Clifford Roberts - *MCM Asia Limited, Research Division - Senior Research Analyst*

And the kind of the product/personnel cost rationalization, can you give us qualitatively an idea of kind of where we are in that process?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Yes. We are -- it's just somehow in the mid of the year, we will have some deduction of certain, let's say, 10%, yes. But that -- the major contribution is really -- it's not -- that's the second or the third factor, but the top factor is really stop burning cash and burning money with the top line video content and also improving algorithm and products, so that increases the inventory.

Operator

Our next question comes from the line of Richie Tsang of HSBC.

Chi Tsang - *HSBC, Research Division - Head of Internet Research of Asia Pacific*

So I actually have 2 questions. So one is I want to ask Charles about -- because in general -- generally speaking, I think, especially the younger generations have more fair amount of time than before. So in terms of, let's say, competition between, let's say, short-form videos versus long-form videos, I wonder what's your thought on that in terms of, let's say, the time spend competition. And then I think the second question is about the dividends distribution that you received from Changyou. So I think regarding that portion of the money, so what will the company actually use going forward given that, let's say, the video business is trying to use -- spend less? So would that be more on the media side or will there be other usage for the cash?

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Well, you mean that the younger generations have a more fragmented time, right? So you're -- that's why we...

Chi Tsang - *HSBC, Research Division - Head of Internet Research of Asia Pacific*

Given that short-form videos (inaudible), they're gaining much more popularity, especially among the younger generation. So all I say, for Sohu Video, I wonder if you would have the same target or do you have target differently. Yes.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

I think the -- first of all, the -- our Sohu Video app, we will produce a shorter form -- a shorter drama, like maybe 12 episodes and each like half an hour. And also, we are putting more [space] to expose our content, the short-form content of few minutes content. And so on this, our main app will be evolution of the product and interface and content provision. And also, we have some exploratory efforts, some other app of -- and also our news apps, there is also consumption of short clips. So yes, this is a trend, and we are evolving our product for that. But we're not giving up -- we're not just to have another -- But we also have our own sort of network products in the making. So the dividend, I think, we were just barely make ends meet, right? So we don't have a lot of extra cash. We'll definitely -- our investment -- the money, we'll spend on the news app and improvements of the -- yes, on product, on big data, on -- it's not a lot of actual cash to spend.

Operator

Our next question is from Juan Lin of 86Research.

Juan Lin - *86Research Limited - Research Analyst*

This is Juan. I have two questions. The first one is on Sogou. First, you mentioned the top verticals for Sogou Search. I'm wondering what was the fastest-growing verticals in the first quarter. And also, for the first quarter revenue, you mentioned that -- a 30% improvement for the monetization. Could you please elaborate the monetization improvement, for example, how much of that is business fee improvement and how much of that is [CPI] improvement. And do you expect monetization improvement to stay at a similar level for the rest of the year? The second question is on video. You mentioned that the viewership was stable or you improved for the rest of the year. I'm wondering, do you expect PGC content contribution to -- as a percentage of total traffic, it will continue to increase on the current level and whether PGC content can be monetized at a similar level with licensed content. And if not, what will be the trends for video revenue going forward?

Yi Zhou - *Sogou Inc. - CFO*

Yes, okay. So for faster-growing industry, so health care, e-commerce are among the fastest-growing industry. Second, for Q1 revenue, so if you use -- based the growth of, say, the 43% year-over-year growth into number of clicks and the CPC, so roughly 15% from increase of number of clicks and the 22% from pricing.

Charles Zhang - *Sohu.com Inc. - Chairman & CEO*

Okay. On the video side, the PGC now contributing 40% of our traffic. So people are consuming 40% of traffic off of PGC content. And then -- so going forward, I'm confident we'll be able to maintain the DAU with PGC -- more PGC exposure. And then previously, there was only -- the advertising is more -- preload preload, right, preload advertising. And also the subscription -- then with the subscription side, you don't know -- you don't have it because people paid -- already paid the monthly fee. But now we have not only the preload, but the (foreign language) intra -- subscription intra-drama advertising that even for those subscription -- subscribers because you have to [skip], it does not interrupt their viewing experience. And also, more importantly, with more PGC, this streaming, right, stream, right, embedded advertising in the feed, yes, in the feed, especially for gaming advertisers. They like that. So that's -- so these additional 2 type of advertisers -- advertising, I'm sure that we'll be able to monetize better.

Operator

Ladies and gentlemen, that does conclude our question-and-answer session. I would like to hand the conference back to Mr. Eric Yuan for closing remarks.

Eric Yuan

Okay. Thank you all for joining this call. Bye-bye. Thank you.

Operator

Thank you, ladies and gentlemen. That does conclude the conference for today. Thank you for participating. You may now all disconnect.

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