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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the iQIYI Fourth Quarter and Fiscal Year 2018 Earnings Conference Call. (Operator Instructions) I must advise you that this conference is being recorded today, 22nd of February 2019.

I would now like to hand the conference over to Dahlia Wei, Director of Investor Relations. Thank you. Please go ahead.

Dahlia Wei - *iQIYI, Inc. - Director of IR*

Thank you, operator. Hello, everyone, and thank you all for joining iQIYI's Q4 and full year 2018 earnings conference call. The company's results were released earlier today and are available on the company's Investor Relations website at ir.iqiyi.com.

On the call today are Dr. Yu Gong, our Founder, Director and CEO; and Mr. Xiaodong Wang, our CFO. Dr. Gong will give a brief overview of the company's business operations and highlights; followed by Xiaodong, who will go through the financials and guidance. After their prepared remarks, we will hold a Q&A session.

Before we proceed, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to risks and uncertainties and may cause actual results to differ materially from our current expectations. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the SEC. iQIYI does not undertake any obligation to update any forward-looking statements except as required under applicable law.

With that, I will now turn the call over to Dr. Gong. Please go ahead.

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

Hello, everyone, and thank you for joining us for our fourth quarter and full year 2018 earnings call.

We delivered another quarter of solid growth. Total revenues reached RMB 7 billion, up 54% year-over-year. We ended the year with total revenues of RMB 25 billion, up 52% year-over-year. Throughout the year, we continued to generate growth across various key operational metrics, including subscribers, engagement levels and the time spent. The number of total subscribers reached 87.4 million as at the end of 2018, representing a 72% year-over-year growth.

Our membership business continued to be the main engine of our growth, with revenues increasing 76% year-over-year to RMB 3.2 billion during the fourth quarter. This again was driven by growth of the number of subscribers, which recorded a net addition of 6.7 million sequentially and 36.6 million year-over-year.

The significant growth was primarily a reflection of our premium content, which is clearly driving subscribers' conversion and stickiness. Our self-produced drama series, including Tang Dynasty Tour, The City of Chaos and Original Sin, performed well in the fourth quarter. In addition, movie content also played an important role in driving subscriber growth. We released a number of popular theatrical movies on our platform shortly after they hit the box office over the summer and the national holiday in October. These movies included, Hello, Mr. Billionaire, Dying to Survive and Project Gutenberg, among others.

Our joint membership program with JD.com continued to make good progress during the quarter. It helped contribute a steady inflow of annual subscribers. We also deepened our partnership with China Mobile. We launched our combined membership plus mobile video data package with its video streaming app, MIGU. Recently, we also extended our joint membership program with Ctrip, where iQIYI Diamond VIP and QIYIGUO annual members can enjoy certain priority travel services from Ctrip. And the Ctrip Prime members can activate an 8-month VIP membership from iQIYI.

In addition, we continued to broaden our cooperation with various commercial banks, financial institutions and other service providers to further enhance VIP benefits. Access to our premium content and special privileges continue to incentivize our free users to convert into subscribers.

I will now turn to our advertising business. For the fourth quarter, advertising revenue grew 9% year-over-year to RMB 2.2 billion. We further enhanced our ability to provide innovative advertising solutions. For example, we began offering vertical and interactive ads for our first portrait mode short-form drama series, Ugh! Life! For full year 2018, advertising revenue grew 21% year-over-year to RMB 9.3 billion. More advertisers are becoming interested in our original content.

Our other business also continued to grow. Other revenues grew significantly by 129% year-over-year, and accounted for 16% of total revenue during the first quarter. The growth was broad-based and, in particular, was driven by gaming, IP licensing and our talent agency business.

On the content side, we continue to focus on producing high-quality content, especially original, premium and innovative content.

For dramas, we launched a number of original titles during the fourth quarter, including Tang Dynasty Tour, The City of Chaos and The Original Sin as well as a few licensed drama series such as The Story of Minglan and the Like A Flowing River. As I mentioned earlier, we also released our first portrait mode short-form comedy series, Ugh! Life! Each of these dramas has received great reviews and have become quite popular.

For variety shows, the fifth season of Qipa Talk continued to gain traction following a strong return with new contestants and upgraded formats. During the fourth quarter, we also released a series of young-oriented shows that target younger generation of audiences. The Chinese Youth, a music show that incorporates traditional Chinese cultural elements broke a new ground; I, Actor, a show about training young acting talent also became very popular and helped to beef up the supply of potential actors and actresses in our original content.

Movies remain a critical component of our content ecosystem and have been driving subscriber growth and retention. Our curated movie procurement strategy has allowed an increasing number of movies to become available on our platform shortly after their theatrical release. At the same time, we are working with hundreds of content providers who develop high-quality Internet movies for our platform under our revenue-sharing model.

In terms of content development, I'm pleased with the progress we made in 2018. Our overall content library is expanding rapidly in breadth and depth. We continue to enhance our production capabilities for original content and streamline our IP value chain. Our original iconic drama, The

Story of Yanxi Palace, recently entered the spotlight again as it ranked the most Googled drama series globally in 2018. Thanks to the popular digital novel of same name, our iQIYI Reading app ranked among the Top 10 mobile apps with the fastest-growing user base in 2018 according to QuestMobile. We are also leveraging successful IP from our video content to develop mobile games and other forms of entertainment. In addition, we continue to nurture our ecosystem, and as a result, we're able to empower an expanding group of PGC partners to grow with us. The amount of content contributed by iQIYI Partner Accounts increased significantly from a year ago, and PGC content now accounts for over half of our total traffic in terms of video views.

Entering 2019, we kicked off the year with several successful original titles, including our original drama series, Beauty Haolan, and the self-produced variety shows, Idol Producer 2. For the rest of the year, we have a strong portfolio of content lined up, including original drama series, The Golden Eyes, Sword Dynasty, Season 2 of Tientsin Mystic, The Thunder, Zhaoge and then the Legend of White Snake, among others. We also have new seasons of various self-produced variety shows such as The Rap of China, set for release.

Last but not least, I'd like to briefly talk about our technology development. As a technology-based entertainment company, we apply innovative AI technology to every part of our organization to drive business growth. We continued to enhance our network infrastructure, app matrix, social community as well as content distribution and the monetization efficiency. We also made numerous efforts to incubate new products and services to better serve our users and partners.

In late November, we again partnered with Baidu as well as Sichuan Cable TV to jointly launch the Shu Little Fruit Set Top Box. This was the second AI-based TV box after Gehua Little Fruit, our ground-breaking MVPD plus VOD partnership with Beijing Gehua CATV Network earlier the last year. Both set-top boxes incorporate iQIYI's HomeAI solution that brings users a smarter home entertainment experience such as voice control and facial recognition.

Another exciting area for us is our Cutting-edge ZoomAI technology, which integrates a holistic set of solutions to enhance image and video quality with AI technologies. It also increases the frame rate of videos from 25fps per second to 50fps through intelligent frames interpolation, which is invaluable for scenes with rapid movements such as sports content. ZoomAI's unique image in painting algorithm can also be deployed to restore some classic TV drama content that were produced decades ago. It only takes ZoomAI 6 to 8 hours to fix a 2-hour long video, which would otherwise have taken approximately 10 people 20 working days to finish. iQIYI's ZoomAI was recently awarded the Excellent Technical Award at the ChinaMM 2018.

In conclusion, 2018 was a fruitful year for us as we reached many milestones. Our IPO early last year introduced us as a public company and elevated our brand and platform; our comprehensive portfolio of content continues to excel. Our subscriber numbers constantly hit new highs; and our revenues continued to scale and diversify.

2018 was also a transition year for us. As we shifted more resources towards producing original content, we believe it will help us build a stronger platform and IP powerhouse over the long term. Looking out in 2019, we are more confident than ever in our business prospects.

And with that, I will now pass the call to Xiaodong to go over our financials.

Xiaodong Wang - *iQIYI, Inc. - CFO*

Good morning, everyone. Let me go through our financial highlights. Starting on January 1, 2018, iQIYI adopted ASC 606, a new revenue accounting standard that nets VAT from the revenue and cost of revenue line items. To increase comparability with 2018 numbers, 2017 numbers for today's discussion have been adjusted net of VAT.

For the fourth quarter of 2018, iQIYI's total revenues was RMB 7 billion, up 55% year-over-year. Total revenues in 2018 reached RMB 25 billion, up 52% year-over-year. The increase was primarily driven by strong growth of our membership service, thanks to our premium content, especially, our original content titles as well as our various operational initiatives.

Membership services revenue for the fourth quarter was RMB 3.2 billion, up 76% year-over-year. Membership services revenue in 2018 were RMB 10.6 billion, up 72% year-over-year. This was driven by the strong growth in the number of subscribers, which reached 87.4 million at the end of 2018.

Online advertising services revenue for the fourth quarter were RMB 2.2 billion, up 9% year-over-year, primarily attributable for the growth of brand advertising business. Online advertising services revenue in 2018 was RMB 9.3 billion, up 21% year-over-year, primarily driven by our innovative advertising solutions and the high-quality content offerings, especially our original content.

Content distribution revenue for the fourth quarter was RMB 522 million, up 137% year-over-year. Content distribution revenue in 2018 were RMB 2.2 billion, up 92% year-over-year. The increase were driven by a number of premium content titles we distributed.

Other revenues for the fourth quarter were RMB 1.1 billion, up to 129% year-over-year. Other revenues in 2018 was RMB 2.9 billion, up 105% from year 2017. The increase was driven by strong performance across various business lines.

Moving on to the cost of revenues. Our cost of revenues for the fourth quarter was RMB 8.5 billion, up 100% year-over-year. Cost of revenues in 2018 was RMB 27.1 billion, up 65% from year 2017. The increase was primarily driven by higher content cost as we persist in our original content strategy to build our comprehensive content library. Content costs were RMB 6.5 billion for the fourth quarter and RMB 21.1 billion for the year of 2018, up 97% and 67% on a year-over-year basis, respectively.

Turning to the operating expenses. SG&A expense in the fourth quarter were RMB 1.2 billion, up 58% year-over-year. SG&A expense in 2018 were RMB 4.2 billion, up 56% from year 2017. The increase was primarily due to the increased marketing spending on the channel coverage and the content-related promotion as well as increased share-based compensation expenses.

Our R&D expenses in the fourth quarter were RMB 607.5 million, up 67% year-over-year. Research and development expense in 2018 were RMB 2 billion, up 57% from year 2017. The increase was primarily due to our continuous investment in R&D people.

Operating loss in the fourth quarter was RMB 3.3 billion compared with operating loss of RMB 856.1 million in the same period of 2017. The operating loss margin for the fourth quarter was 47% compared to the operating loss margin of 19% in the same period of 2017. Operating loss in 2018 was RMB 8.3 billion compared to the operating loss of RMB 4 billion in 2017. Operating loss margin in 2018 was 33% compared to operating loss margin of 24% in year '17.

Total other expense in the fourth quarter were RMB 34.8 million compared with total other income of RMB 233.8 million during the same period of 2017. Total other expense in 2018 were RMB 676.2 million compared to total other income of RMB 208.5 million during 2017. The full year variance mainly came from the foreign exchange loss and gain we recognized in year 2018 and the year 2017, respectively. The remaining variance was related to lower interest expense and the higher interest income as a result of our IPO and other financing activities in the year 2018 as well as the recognition of fair value gain arising from our private company equity investments.

Loss before income tax for the fourth quarter was RMB 3.4 billion compared with a loss of RMB 622.3 million during the same period of 2017. Loss before income tax in year 2018 was RMB 9 billion compared to a loss of RMB 3.7 billion in year 2017.

Income tax expense for the fourth quarter was RMB 79.5 million compared to an income tax benefit of RMB 9.9 million in the same period in 2017. Income tax expense in the year 2018 was RMB 78.8 million compared to income tax benefit of RMB 7.6 million in year 2017.

Net loss attributable for iQIYI for the fourth quarter was RMB 3.5 billion compared with a loss of RMB 612.4 million during the same period of 2017. Diluted net loss attributable to iQIYI per ADS for the fourth quarter was RMB 4.83. Net loss attributable to iQIYI in 2018 was RMB 9.1 billion compared to a loss of RMB 3.7 billion in year 2017. Diluted net loss attributable to iQIYI per ADS was RMB 17.01 for year 2018.

As of December 31, 2018, the company had cash, cash equivalents, restricted cash and short-term investments of RMB 12.8 billion. In December, we closed the offering of USD 750 million in aggregate principal amount of convertible senior notes as part of our efforts to diversify our financing options and the investor base.

Heading for the first quarter 2019 guidance, we expect total revenue to between RMB 6.8 billion and RMB 7.1 billion, representing an increase of 40% to 46% year-over-year. This forecast reflects iQIYI's current and preliminary view, subject to change.

This concludes our prepared remarks. I will now turn the call to the operator and now open for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Thomas Chong from Credit Suisse.

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

My question is about the 2019 outlook. Given that we see our subscribers is growing very well, just want to see how we should think about the subscribers growth as well as other business segments like advertising, content distribution and others, because we see content distribution and others also performing very well as well as the trend in content costs.

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

This is Gong Yu. (foreign language)

Dahlia Wei - *iQIYI, Inc. - Director of IR*

I will first start from the revenue side. We remain optimistic about the membership business in 2019. We would like to reiterate that we think the net additions in this year will be pretty much similar as the net additions we achieved in year '18. I think there are 2 major drivers behind that. One, is we are producing more and more original content. And not only the quantity is increasing but also the quality is improving that drives a lot of free users to become paying subscribers. And secondly, overall, the Chinese Internet users are getting used to the paying habit and they are more appreciating the premium content that the entertainment, it shows to them, so it's very common for them to become -- get used to the paying habit. And secondly on the advertising side, we are cautiously optimistic about advertising business. Start with brand advertising because brand advertising is the majority of our advertising revenue, and infeed, is a small part of the advertising. On the brand side, we believe we will keep -- slice -- more market share from the TV advertising side because advertisers are keeping shifting their budgets towards the video platform. However, because of the macro headwinds and the facts that you are all aware of, we think that the growth rate will not be as high as the previous years. That's for brand ads. For the in-feed ads, we have 2 major observations. One, is we think the industry-wide, the supply of inventory is growing. And on the other hand, the feeding demand is not growing that much. So there is a potential pressure for the feeding price. And secondly, as we mentioned before, we are doing some cleaning up for our own in-feed advertisers because of the -- there are more risky profile of unhealthy advertisements, so we did that in last quarter and also this quarter. So overall, we are cautiously optimistic about advertising. On the content side, we have already saw that since August last year, the -- both the procurement price, or you say that license price as well as the production cost are both coming down. I mean, the selling price. To give you an example, previously, the highest license price for a single episode would be as high as RMB 15 million per episode. Now since -- after August last year, it's come down to around RMB 8 million per episode. On the self-produced side, we also benefit from the capped salary regulation for actors. Previously, some very A-list actor or actress can charge as high as RMB 150 million for a show. But now the cap is only RMB 15 million. So that gives us the confidence that the both licensed content as well as self-produced content cost will come down in the future. Why we say in the future? It's because the licensed content, there will be a time lag of 6 to 12 months between the contract was signed to a content can actually come online. And for self-produced contents are actually taking longer to -- as long as 12 to 18 months before that -- those impacts can heal our P&L.

Operator

Your 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*

Just a follow-up question on your comment about content spending. So as the market content costs coming down, how would that affect your strategy in content purchases? Would you have more saving or increased volume of contents to be purchased than produced? And then just a quick question on the subscription business. Could you comment on the retention rate you have seen in recent quarter or 2 given the faster growth and accelerating growth of your subscriber number this -- in 2018?

Xiaodong Wang - *iQIYI, Inc. - CFO*

Dr. Gong Yu will comment on the first question. This is Xiaodong. I will answer your second one. And the churn rate of subscription business remain in, I think, almost the same as the previous ones. I think, slight improvement we can see that. And so I don't think the increase on the subscriber base has anything, I'd say, negative impact on the churn rate.

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

(foreign language)

Dahlia Wei - *iQIYI, Inc. - Director of IR*

For the content purchased, actually, most of the content we plan for 2019 was -- the ballpark was already purchased in year '18. So -- and actually, the licensed content is pretty much saturated in 2018. So now we are planning for 2020. That means the purchase volume in 2019 will not grow that much in this year versus 2018. And you are looking beyond -- if you're looking at the purchase volume of 2020 versus 2019, we actually are citing a slight decrease in volume for the purchased content. On the self-produced or the original content, on the other hand, we are seeing very clear obvious increase in volume in year '18 versus '17. And if you look at this year versus last year or even year 2020 versus 2019, now trend will continue to increase because this is our strategy direction for us.

Operator

Your next question comes from the line of Ella Ji from China Renaissance.

Diying Ji - *China Renaissance Securities (US) Inc., Research Division - Head of TMT Research*

First, I wanted to follow up with the discussion of content cost. Can we just talk about that on a cash flow basis instead of on a P&L basis? So on cash flow basis, if the total purchased content volume may go down moderately and the unit price is also going down, shall we expect the cash flow spending for content in 2019 will be much smaller than 2018? And then secondarily, yes, just quickly on the -- regarding the regulation -- regulatory environment. So I wonder if Dr. Gong can further comment on the -- currently, we understand that the entire entertainment industry sort of slowed down dramatically because of stronger regulation, also the celebrity pay ceiling. So Dr. Gong, do you expect this will be a temporary situation or do you think that this will likely be a structural change?

Xiaodong Wang - *iQIYI, Inc. - CFO*

This is Xiaodong and I will answer the first question and then Dr. Gong will comment on the second one. So you're right. On the licensed content, definitely, you will see some improvement on the cash flow side because the volume, and Dr. Gong just mentioned, in 2020 will decrease and that the price will decrease. So the cash flow we spend on licensed content side will decrease. However, this doesn't necessarily mean the total cash flow and our total content cost will improve a lot because as we discussed before, as we increase the percentage of our original content, actually, the cash flow will deteriorate, because you have to pay up-front for all the original content because nobody else will pay for that. So in all, I would expect probably a slight improvement on major ones. So I don't think any material improvement on the cash flow side. And before Dr. Gong will comment on the second question, I just want to remind you guys, let's stick to the one question-only, otherwise, we'll run out of time. So please.

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

(foreign language)

Dahlia Wei - *iQIYI, Inc. - Director of IR*

Actually, there are 3 major regulatory changes in the past several months. Number one, is before the all contents aired on the video platform, the platform will be responsible to getting the necessary permission and license for those. And now, it turns out to change to the content producers who need to apply those permissions themselves. We don't think that has much impact on us because from now on, we will only be responsible for the permission for the content iQIYI produced -- original produced, so we will not be responsible for the CP's content permission. And secondly, there's new rule that for the content that was released on the video platform as the first window content, those contents need to, not only get a provincial permission, but also need a central government permission for those content. So that has some impact on us because -- on the industry broadly because that will take longer time, firstly, and then maybe the central bureau is more strict than the provincial bureau and some part of the content might be deleted or adjusted, that's the impact. But the impact is very limited. And thirdly, there is some new rules on short-form video content. That mainly affect the short-form video players. We only have limited exposure to the short videos, so that is impact on us is also limited. For the question you asked about the cap payment, the ceiling of the payment to celebrities, I think that's very positive for the long-term development for the industry because although the number, RMB 15 million cap, that we -- I talked just now, that's only a joint declaration between us and 3 major platforms and 6 major production companies, that's not actually the government enforcement rules. However, that already -- that's a very widely accepted practice for the industry. As far as I know, there haven't been any violation of that since last summer. So I think that will be a very positive sign, and it makes both younger actors and actress to stand out from the old and very established actors and actress. And it's also such a benchmark effect for those older actors because they cannot afford to not appearing on TV or on our view platform for more than 1 year. So they will gladly accept the roles as well. I think those will be very positive for the industry and will be a sustainable trend going forward because that's more rational for the market, it's more fitting for the market condition.

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

(foreign language)

Dahlia Wei - *iQIYI, Inc. - Director of IR*

The licensed content -- the volume of license content has increased dramatically in 2017 to 2018 because the supply is very big. And now we have a content list of more than 100 dramas on our list, so I think the supply is very sufficient. And even in latter half of 2018, we didn't see any decrease of that supply.

Operator

And your next question comes from the line of Alicia Yap of Citigroup.

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

I have a question on the advertising. So reading your advertising revenue, what is the rough percentage of contribution coming from the creative ad solutions that are pre-committed by the advertiser for your self-produced content? So if we exclude this creative ad solution, what could be the growth rate for the traditional pre-roll ad revenue for this quarter over the past couple of quarters?

Xiaodong Wang - *iQIYI, Inc. - CFO*

This is Xiaodong. I think for those innovative advertising solutions, and as we've said, over 50% of ads revenue for our original content, as for licensed content, because it's very difficult for us to embed those innovative solution in the like say content produced by third party, so basically, as you already know, the licensed content still account for the majority of the total content library. So it's not that big, but in some, like, quarter, it varies from quarter-to-quarter. For example, in some quarter, we released 1 or 2 hit variety shows, that will give us like the jump of the package you asked. So I just, okay, only give you a wide range. I think those innovative ad solutions accounts for, let's say, 20% to 40% of the total ads revenue. That's just a rough range because it just varies from quarter-to-quarter. And...

Operator

So the next question comes from the line of Binnie Wong from HSBC.

Wai Yan Wong - *HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst*

So my question is on the advertising revenue growth. If you look at the nice growth, the strong growth in the membership services, of course, that proves the -- our premium content is actually one of the industry-leading and industry best, right? But how come, like, if you look at the advertising revenue growth, we can see a sequential decline. So besides the macro reasons, is there any way that, in 2019, that we will be put -- when we put, like, the sponsorship, the advertising solutions, we will, in advance, be able to raise our pricing? So it's like the success of Yanxi Palace, right, that it hasn't been entirely fully been able to capture it in our stronger advertising growth. So in 2019, people -- management has really talked about (foreign language) recruiting the advertisers. So how are we seeing any modification changes so we could ensure that we can capture more of the upside when the drama series has been practically doing well?

Xiaodong Wang - *iQIYI, Inc. - CFO*

Okay, it's a very long question. I think of it as a long matter in the press release. So let me just probably clarify. First, I think the one major reason for the big partners' crucial decline for ads business is not only due to the macro environment. Actually, it has mainly come from the seasonality. The fourth quarter typically is like a slow season compared to the peak season of third quarter. And then you also mentioned limited, I'd say, hot content. Actually you are right, Yanxi Palace is like -- is content for the subscribers. So we did reflect some as revenue, but there is another primary purpose for that. So it's maybe a wrong example, but you're right, definitely, we try to capture all the opportunities for those legacy and, say, hot content or whatever. So basically, I think the innovative ad solution is a key driver for our brand advertisement in the next few years. That's the only, we think, to outperform the general level of the market. So basically, we still believe if we're consisting our new content, we'll have more like simplicity than complexity to putting more innovative ads, they will have to continue to grow the branding advertisement. Also, you mentioned something about legacy increases under the house cleaning impact. It's not (foreign language), it's (foreign language) and so it's e-commerce related, it's something else. But we can explain later for that category. And yes, with these ads, and we expect the recovery will take some time. So basically, I think for the first 2 quarters this year, we will continue to expand the customer base which is very important for this increased ads business. We hope to expand the customer base to a more diversified and a more healthy one. And that's the general idea, but it will take some time. We expect and maybe to the second half of this year.

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

(foreign language)

Operator

I'll move on to the next question. So the next question comes from the line of Tian Hou of T.H. Capital.

Tianxiao Hou - *T.H. Capital, LLC - Founder, CEO & Senior Analyst*

So the question is related to the content cost. So one, on the one hand, the purchasing cost on absolute dollar-wise, it seems like, is going to be slower than last year. On the in-house produced or professionally-produced, the content or self-produced content seems like they're going to go up. So I wonder on a percentage base, percentage of revenue, is this percentage is going to be flat with 2019 or slightly down compared with the 2018. And also regarding the member payment, so we do see some competition in the market. So do you see the trend of the member payment on an average basis slightly going down? What the trend is going to be? That's the question.

Operator

Ladies and gentlemen, the speaker is currently experiencing some technical difficulty. Please stay on the line while we address the situation. (Operator Instructions)

(technical difficulty)

Operator

We have the speaker back in the room, and you may continue.

Xiaodong Wang - *iQIYI, Inc. - CFO*

Sorry for the inconvenience. I'll just try to answer the last question if I heard them correctly. I think the question was sent in 2 parts. The first one is what's the percentage of let's say -- what's the mix look like between original content and licensed content from a, like, revenue perspective? And we didn't disclose that number particularly, but I can give you some idea. With said something about the original content account for about, like, 10% of the total content cost versus the licensed content, and that we also said that the monetization -ability for original content is better than the licensed content, so you can roughly -- have a rough idea of the revenue percentage of original content as a percent of total content. And the second one is whether the increase of subscriber has negative trends on the ARPU side because of the competition. We don't see that trend. Because actually, I don't think that pricing is the key driver of this business. I think the content and user evolution is more important and to develop subscribers. So no, we don't see any negative trends on our side.

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

(foreign language)

Dahlia Wei - *iQIYI, Inc. - Director of IR*

Dr. Gong would just add some more comments relating to Binnie's previous question. We have 2 main categories of self-produced content. One is variety shows. That's for -- mainly for advertising monetization. For drama series, previously, we -- the majority also targeted to drive membership growth but not -- less concentrated on the advertising business. Going forward, when we plan on marketing our self-produced show -- produced drama series, we'll be more balanced, the contribution for both such business and advertising business. The example you talked about, Yanxi Palace, that's not a very balanced example because that show -- the video view, the traffic would really stack up in the second half of the play. So advertisers could not previously set a very high target for them before the show was aired.

Operator

Your next...

Dahlia Wei - *iQIYI, Inc. - Director of IR*

I think we can take one more question due time limit.

Operator

The final question will come from the line of Karen Chan of Jefferies.

Karen Chan - *Jefferies LLC, Research Division - Equity Analyst*

So just wondering, very quickly, are we maintaining our full year content cost guidance at 70%-plus as percentage of revenue? And also, are we seeing any negative impact, if at all, on scarcity of quality license content when we do procurement as a result of tighter tax inspection on top celebrities in China or top celebrities being much more low-profile than they were previously?

Xiaodong Wang - *iQIYI, Inc. - CFO*

We don't provide official guidance for the content cost, but we do give some guidance on the -- in the trends of the content cost in year 2018. We said that the content cost as a percent of revenue should be better than the second half of the year and probably slightly better. So that gives you some rough idea on the range. And...

Tim Gong Yu - *iQIYI, Inc. - Founder, CEO & Director*

(foreign language)

Dahlia Wei - *iQIYI, Inc. - Director of IR*

Actually, for our pipeline this year or even next year, we are very -- we have plenty of content lined up with the top celebrities because they are previously signed and we have enough of pipeline of them. And secondly, if you look at our self-produced content with those new actor and actress limited pay of RMB 15 million, I think 1 or 2 years later, they will already be a new generation of stars. So we are very confident in that.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, and you may all disconnect.

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