



September 18, 2014

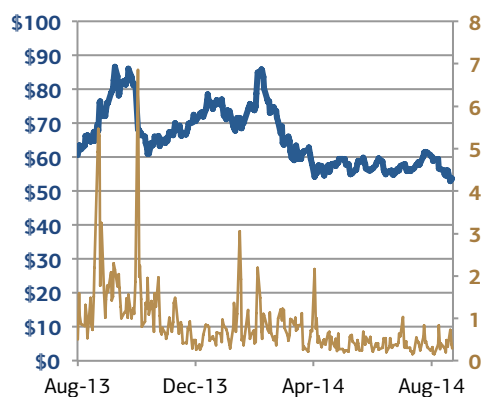
China | TMT

Sohu.com Inc. (SOHU US)

Anne Stevenson-Yang
+86 139 1082 0535
Anne@jcapitalresearch.com

Matt Lowenstein
+1 646 400 1424
matt@jcapitalresearch.com

Sohu.com Inc (SOHU US) one-year share price in USD (blue) and volume (gold, in mln shares)



Source: Bloomberg, September 18, 2014

Sohu.com Inc. (SOHU US)

Price	USD 53.56
Rating	SELL
Price target	USD 16.29
Difference	70%
Market Cap	USD 2.06 bln
Simple Moving Avg.	0.37 mln
P/E	—
Date of last update	Nov 12, 2013
Initiation date	Jan 23, 2012
Last price target	USD 29.55

Source: Bloomberg, September 18, 2014



With growth like this . . .

+ Negative incremental margins

With product development costs and sales and marketing costs on the rise, Sohu now loses money for every dollar of revenue growth. Even Changyou, once Sohu's cash cow, is now in the red.

+ Content costs rising

Last year, management promised that content costs for Sohu Video were stabilizing. Now they say that content costs are rising again, and profitability for Sohu Video is nowhere in sight.

+ PT lowered to USD 16.29; SELL

We have lowered our price target to USD 16.29 on a DCF basis. We believe that Sohu not only has no more growth paths to offer but will continue to run down its cash and erode the equity value of the company.

Negative on Sohu

Being third best in three businesses does not make a first-class company. Out-funded, out-classed, and generally out-flanked, Sohu is now forced to spend more and more just to maintain the appearance of growth. In short, this is a business in decline.

Table 1. Sohu summary quarterlies, 2012-2014

USD mln	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2
Revenue	227	256	285	299	308	339	368	385	365	400
Gross profit	147	156	189	206	204	225	243	248	227	230
Operating income	52	43	64	64	71	64	52	-4	-69	-62
Operating margin	23%	17%	22%	22%	23%	19%	14%	-1%	-19%	-15%

Source: Company filings

Incremental margins have gone negative in all three of Sohu's main business segments.

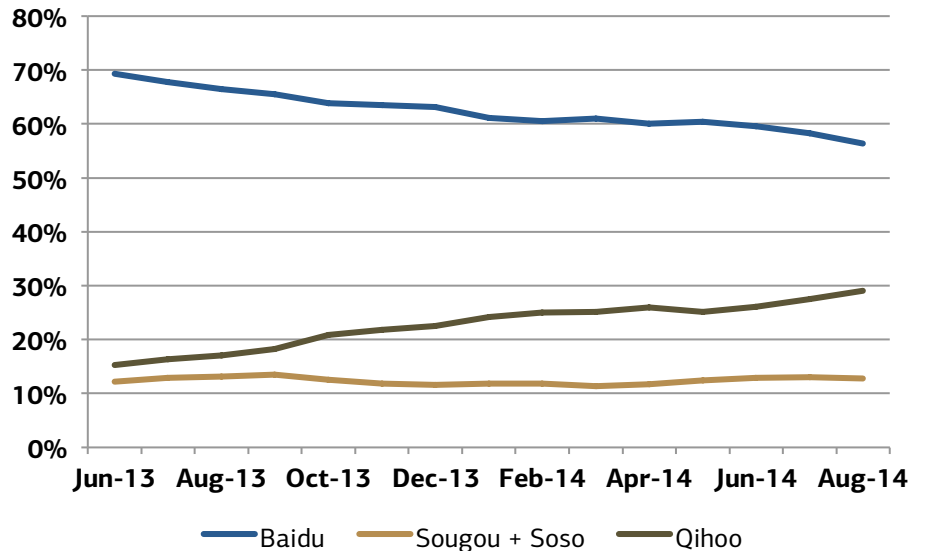
In all three of Sohu's business segments—Brand Advertising, Sogou, and Online gaming—incremental margins have gone negative. For every dollar of growth, Sohu must spend about a buck fifty. Occasional quarters of negative incremental margins are to be expected for TMT companies, which must invest in R&D and marketing ahead of sales. But Sohu's unprofitable growth has been the rule rather than the exception for at least a year running.

Sogou

Sogou was Sohu's great hope for market dominance. With stalled brand advertising and a shrinking market for MMORPGs, search looked promising: Sogou had an installed base of Sogou Pinyin users who drove the Sogou browser to account for 80% of Sogou search traffic per the 2011 Q2 earnings call.

This strategy has only gone so far. Over the last year, Sogou market share growth has been negligible. Even with the acquisition of Soso, for which Sohu ceded 45% of its equity in Sogou, market share has declined over the last year.

Chart 1. Search market share by page view



Source: CNZZ.com

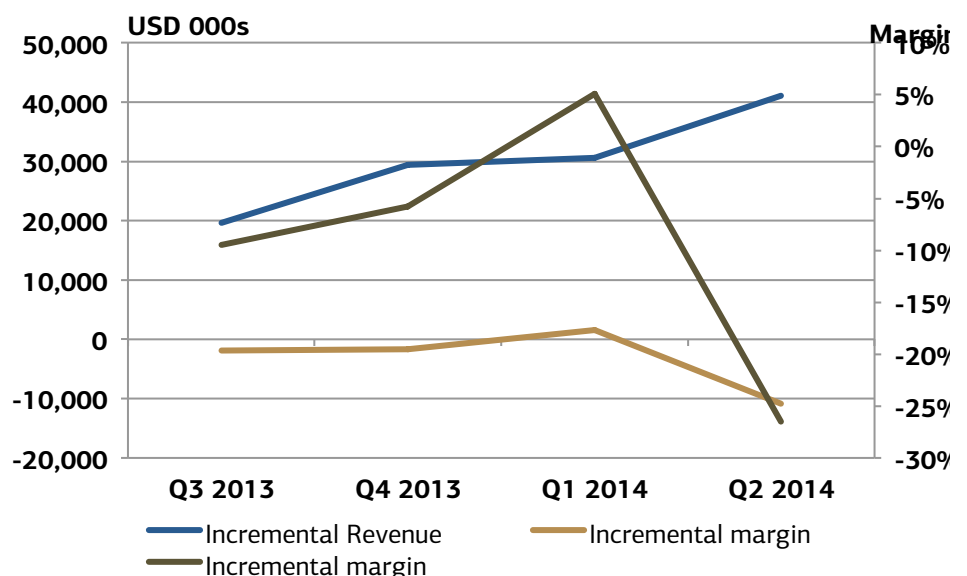
The merger with Soso was just a costly rearguard action to maintain share.

Rather than realizing synergies between Tencent and Sohu that would paved the way for future growth, the Soso merger was in effect a costly rearguard action to maintain share.

What price growth?

Bulls will point to other data suggesting that rapid growth is still in the offing. Sogou topline growth has roared over the four quarters, with Q2 revenue up 82% YoY. But this has been the sort of growth that investors can do without.

Chart 2. Sogou's incremental margins



Source: Company filings, J Capital Research

Sogou lost 27 cents for each dollar of growth in 2014 Q2.

Incremental margins have mostly been negative over the past year. In 2014 Q2, they dipped as low as -27%, meaning that, for each dollar of growth, Sogou lost 27 cents. Closer scrutiny of the financials shows costs rising on two fronts. Sogou is up against rising product development costs, as well as surging share-based compensation.

Table 2. Sogou common size financials

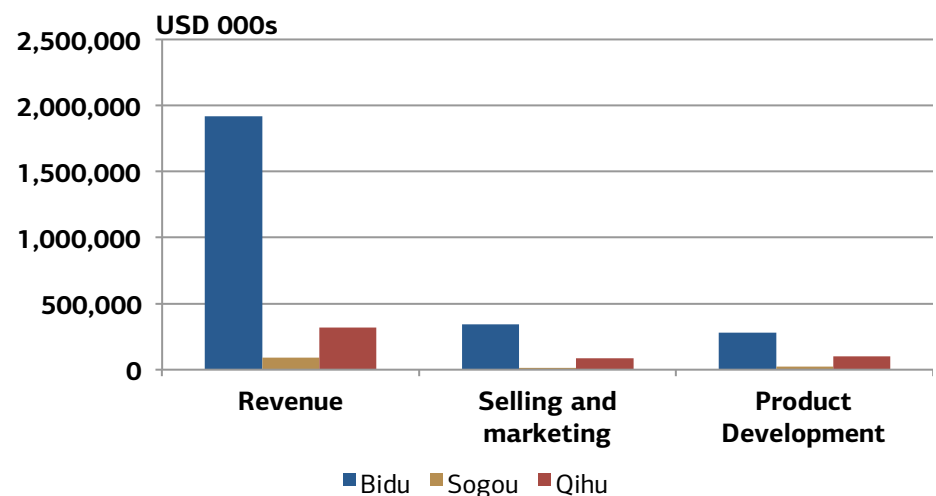
	2013 Q3	2013 Q4	2014 Q1	2014 Q2
Net revenue	100%	100%	100%	100%
Cost of revenues	47%	53%	45%	44%
Share-based Compensation	0%	0%	0%	1%
Gross profit	53%	47%	55%	56%
Product development	31%	32%	35%	28%
Sales and marketing	19%	16%	16%	16%
General and administrative	5%	4%	4%	3%
SBC in Opex	9%	6%	4%	23%
Operating income	-11%	-11%	-3%	-14%

Source: Company filings

Competition with Baidu and Qihoo will drive Sogou's margins down.

In other words, maintaining a viable product and a staff to compete with Baidu is sucking out all the profits of Sogou. Moreover, with Baidu and Qihoo pouring money into marketing and product development, if Sogou wants to compete, its margins are almost certain to get worse before they get better.

Chart 3. Sogou vs. Bidu and Qihoo, 2014 Q2



Source: Company filings

Sogou's revenues come largely from SMEs, which are being hit by the current macroeconomic environment.

Sogou is investing a fraction of what its competitors invest. Far from, "being at a level to . . . compete with the leader of the market head-to-head," as Sogou management claims, Sogou is likely to fall farther and farther behind.

Winter is coming

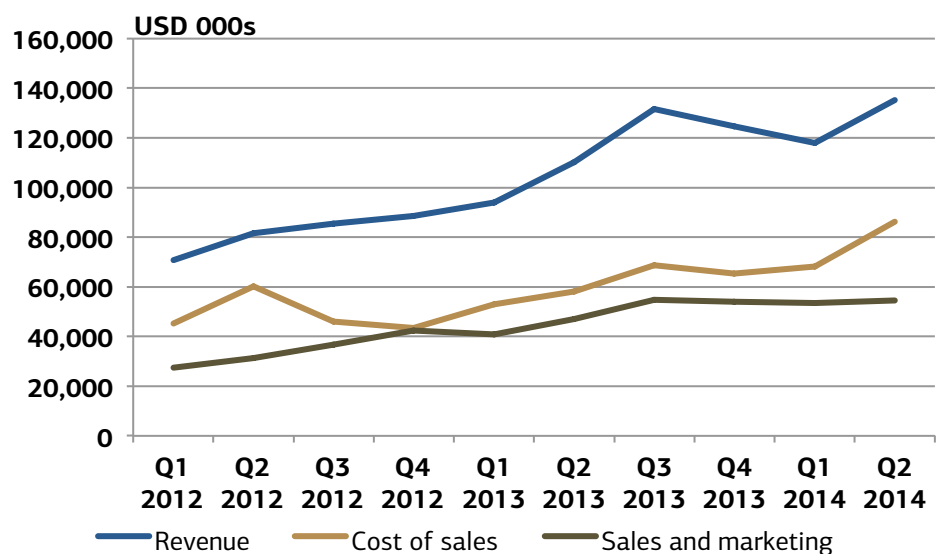
In addition to competitive disadvantages, Sohu is facing macro headwinds that appear to be ignored by many investors. The Street is content to assume that online spending must inevitably grow, regardless of the broader economy. But Sogou revenues come largely from SMEs and, in the current slowing economy, it is reasonable to assume that Sogou will get hit as hard as anyone.

Even Sogou distributors are ambivalent. Though they say that growth this year has been excellent, they attribute this largely to the merger with Soso. On the whole, they report a highly competitive industry. We find no evidence of organic growth, which means Sogou might plateau in 2015.

Brand advertising

Perhaps the most alarming part of Sohu's Q2 results was the confirmation that Sohu Video is not going to turn Sohu into the Netflix of China. Indeed, if Sohu's brand advertising is increasingly loss-making, it is because of Sohu Video, not in spite of it.

Chart 4. Sohu brand advertising



Source: Company filings

Sohu's brand advertising revenue has soared over the last year.

But cost of sales have eaten up virtually all profit growth, even as sales and marketing expenses surge. This pattern suggests that Sohu uses marketing budget to acquire sales—essentially “purchasing” revenue. But at rising content and bandwidth costs, these sales destroy, rather than create, value for Sohu.

Moreover, investors should not be overly sanguine about Sohu Video growing into profitability. Management has a track record of under-delivering.

Table 3. Earnings call predictions: 2013 vs. 2014

2013 Q2	2014 Q2
Content costs, like we said, we expect that to stabilize, and our user base is quickly expanding, and our advertising capabilities has improved significantly. So I would expect both gross margin -- the only variable cost in that equation is bandwidth. So we do expect, like what I said earlier, the margins to improve next year, and then hopefully we can break even in the year 2015.	Over the past few months, the online video has been in intensified competition and escalation in content price. Despite the decent top line and term growth, we achieved the industry-wide unfavorable cost structure will continue to overshadow the profitability outlook for the entire industry, including us.

Source: Earnings transcript

In 2013, management was predicting stabilizing content costs and profitability for Sohu Video within 18 months. With only six months to go, content costs are back on the rise and Sohu Video is heavily in the red. We expect things to get worse before they get better.

Table 4. Sohu brand ads vs. Youku, 2014 Q2

	Youku	Sohu brand advertising
Revenue	154,542	135,085
Product development	15,977	21,825
Content costs	67,400	40,000
Selling and marketing	34,307	54,494
Operating income	-28,659	-44,176

Source: Company filings

Youku’s revenue is larger than Sohu’s entire brand advertising business, and 70% higher than Sohu’s Video advertising. But Youku still earns negative operating margins while outspending Sohu by over 50% on content costs. This suggests that, to compete with Youku, Sohu will have to drastically ramp up its investment even as profitability remains but a dream.

That content costs to Sohu have further to rise is also evidenced by the trend in content cost basis. The Shanghai filings for LeTV,

Last year management was triumphantly declaring stable content costs and profitability for Sohu Video around the corner. Now it is doubtful that Sohu Video will ever turn a profit.

Sohu.com Inc. (SOHU US)

Anne Stevenson-Yang +86 139 1082 0535 anne@jcapitalresearch.com
Matthew Lowenstein +1 646 400 1424 matt@jcapitalresearch.com

the largest wholesaler of content in China, show that content in 2013 grew by 43% YoY on LeTV's balance sheet.

Table 5. LeTV content costs

RMB mln	2010	2011	2012	2013
Capitalized content costs	177	856	1,634	2,340
YoY growth		382%	91%	43%

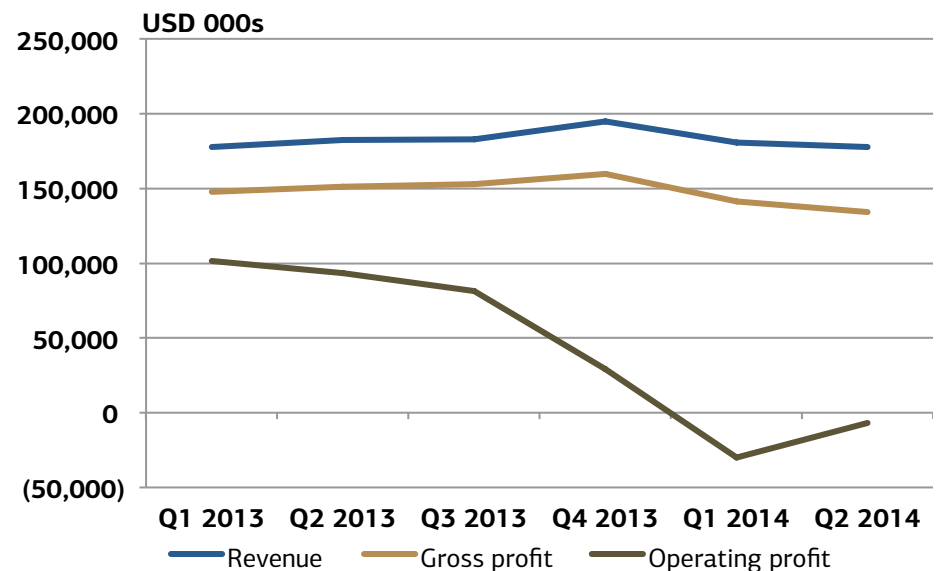
Source: Company filings

It is also telling that, in 2011, Sohu was one of Leju's top five customers. In 2012 and 2013, it has been pushed off the list by the likes of Tencent, PPTV, Xunlei, and Baidu's Qiyi. This indicates that Sohu Video does not have pockets deep enough to compete with better-funded competitors.

Gaming not worth the candle

In 2014, even Changyou, once Sohu's stalwart cash cow, has dropped into the red.

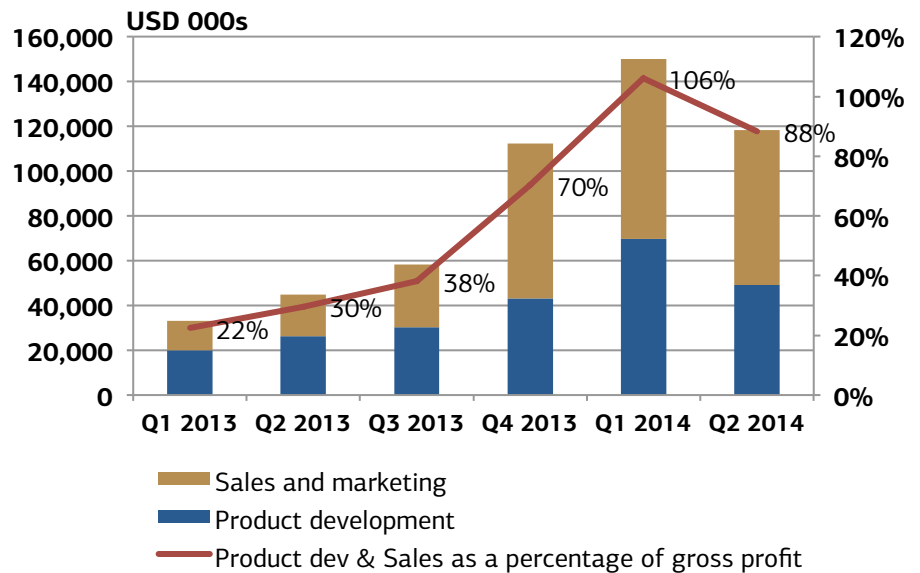
Chart 5. Changyou gross profit



Source: Company filings

Changyou's margins went negative mainly due to skyrocketing compensation expenses for product development and sales and marketing.

Chart 6. Changyou sales and marketing + product development costs



Source: Company filings

No longer Sohu's cash cow, Changyou is now driving shareholder value down.

This is proof that Changyou is drastically overpaying for revenue, and that its acquisition of 7Road has been a failure. 7Road was supposed to give Changyou a new lease on life by providing entrée into the web games market. Now, Changyou finds itself with a portfolio of games, from TLBB to Wartune to DDTank, that are essentially in runoff. In a desperate attempt to forestall contraction, the company finds itself pouring money into product development and marketing. But chasing growth in a shrinking industry is throwing good money after bad, and is almost certain to continue destroying shareholder value.

Equity trades

Oftentimes, when confronted with slowing growth or deteriorating fundamentals, Chinese companies resort to playing accounting games. They enter into buyback arrangements or implement convoluted equity sales that give the illusion of revenue growth. For all its faults, Sohu has for the most part been innocent of such accounting chicanery. But the background transactions in Sogou equity give one pause. Alibaba and Tencent have traded in and out of Sogou at least five times since 2010.

It is impossible to know what is behind the constant dealing in Sogou equity. However, it closely resembles other schemes in which financing is used to promote revenue growth.

Political winds

Recently, Sohu was forced to remove the Big Bang Theory from its website. The fact that the government is still apparently not allowing Sohu to issue a statement on this is telling in itself.

Political risk is also on the rise.

Our research suggests that the move against foreign content and “pornography” (in the case of fines levied against Sina) is part of Xi Jinping’s power consolidation.

The attack on foreign content and Sina’s “lewd” content appears to originate with the Central Internet Security and Informatization Group, headed by Xi himself. There is a risk of future attacks on foreign content, or moves to force online video revenue sharing with state actors.

In brief, we see all the risks to the downside.

Valuation

We are adjusting our price target drastically down, as we no longer believe Sohu to be a viable business in the long term.

Table 6. Sohu valuation

Valuation	USD
Beta	1.92
Risk free rate	2%
Risk premium	6%
Net cash	1,354,880
DCF value	-313,919
Ex: Changyou minority	-414,090
Valuation	626,871
Shares outstanding (000s)	38,480
Value per share	16.29

Source: J Capital Research

Given Sohu’s inability to formulate a rational strategy, we give Sohu a price target of USD 16.29, based on a DCF model.

Bull case

Were competitors in Search or Video to exit the market, Sohu could realize serious economies of scale. It would then be better valued on a sum-of-the parts valuation, as Sogou and Sohu Video would each become a valuable asset in their own right.

Risks

The major risk for Sohu is a change in management strategy. If management decides to liquidate the company in whole or in part, it could unlock major shareholder value through the following actions:

- Selling off assets such as Sohu Video and Sogou
- Seeking acquirers for the entire company or parts of the company
- Cutting back drastically on product development and sales and marketing, and paying out cash in dividends

Proforma financials

Table 7. Statements of comprehensive income

USD 000	2012	2013	2014 FCST	2015 FCST	2016 FCST	2017 FCST	2018 FCST
Revenues:							
Online advertising:							
Brand advertising	290,205.0	428,526.0	578,510.1	780,988.6	1,054,334.7	1,423,351.8	1,921,524.9
Search and others	124,389.0	198,915.0	361,229.6	433,475.6	520,170.7	624,204.8	749,045.8
Subtotal of online advertising revenues	414,594.0	627,441.0	939,739.7	1,214,464.2	1,574,505.3	2,047,556.6	2,670,570.7
Online games	570,346.0	669,168.0	634,530.0	634,530.0	634,530.0	634,530.0	634,530.0
Mobile	55,893.0	53,547.0	53,547.0	53,547.0	53,547.0	53,547.0	53,547.0
Others	26,368.0	50,118.0	50,118.0	50,118.0	50,118.0	50,118.0	50,118.0
Total revenues	1,067,201.0	1,400,274.0	1,677,934.7	1,952,659.2	2,312,700.3	2,785,751.6	3,408,765.7
Cost of revenues:							
Online advertising:							
Brand advertising	161,195.0	221,659.0	370,246.5	499,832.7	674,774.2	910,945.1	1,229,775.9
Search and others	70,628.0	109,139.0	162,553.3	195,064.0	234,076.8	280,892.2	337,070.6
Subtotal of cost of online advertising revenues	231,823.0	330,798.0	532,799.8	694,896.7	908,851.0	1,191,837.3	1,566,846.5
Online games	76,350.0	93,307.0	158,632.5	158,632.5	158,632.5	158,632.5	158,632.5
Mobile	36,893.0	32,654.0	32,654.0	32,654.0	32,654.0	32,654.0	32,654.0
Others	24,592.0	23,291.0	23,291.0	23,291.0	23,291.0	23,291.0	23,291.0
Total cost of revenues	369,658.0	480,050.0	747,377.3	909,474.2	1,123,428.5	1,406,414.8	1,781,424.0
Gross profit	697,543.0	920,224.0	930,557.4	1,043,185.0	1,189,271.9	1,379,336.8	1,627,341.6
Operating expenses:							
Product development	181,359.0	276,120.0	394,178.6	531,970.1	585,445.2	687,613.1	818,517.5
Sales and marketing	214,736.0	351,653.0	364,780.0	570,871.9	658,684.6	775,281.0	930,345.4
General and administrative	75,243.0	108,970.0	120,459.6	138,609.8	162,591.0	194,339.8	236,449.7
Goodwill impairment and impairment of intangible assets via acquisition of businesses	2,906.0	0.0					
Total operating expenses	474,244.0	736,743.0	879,418.2	1,241,451.8	1,406,720.8	1,657,233.9	1,985,312.6
Operating profit	223,299.0	183,481.0	51,139.2	-198,266.8	-217,448.9	-277,897.1	-357,971.0
Other income/(expense)	5,422.0	12,721.0	0.0	0.0	0.0	0.0	0.0
Interest income	25,277.0	27,829.0	42,009.4	47,231.0	43,108.4	38,988.1	33,854.7
Exchange difference	-635.0	-6,660.0	0.0	0.0	0.0	0.0	0.0
Income before income tax expense	253,363.0	217,371.0	93,148.6	-151,035.8	-174,340.5	-238,909.1	-324,116.3
Income tax expense	76,171.0	50,422.0	18,629.7	-30,207.2	-34,868.1	-47,781.8	-64,823.3



Sohu.com Inc. (SOHU US)

Anne Stevenson-Yang

+86 139 1082 0535

anne@jcapitalresearch.com

Matthew Lowenstein

+1 646 400 1424

matt@jcapitalresearch.com

Income from continuing operations	177,192.0	166,949.0	111,778.3	-181,243.0	-209,208.6	-286,690.9	-388,939.5
Gain from discontinued e-commerce operations	0.0	0.0					
Net income	177,192.0	166,949.0	111,778.3	-181,243.0	-209,208.6	-286,690.9	-388,939.5
Less: Net income attributable to the mezzanine-classified noncontrolling interest shareholders	11,196.0	17,780.0					
Net income/(loss) attributable to the noncontrolling interest shareholders	78,837.0	82,044.0	14,129.9	-2,360.8	-2,360.8	-2,360.8	-2,360.8
Dividend or deemed dividend to noncontrolling Sogou Series A Preferred shareholders	14,219.0	82,432.0	0.0	0.0	0.0	0.0	0.0
Net income/(loss) attributable to Sohu.com Inc.	72,940.0	-15,298.0	97,648.4	-178,882.2	-206,847.8	-284,330.1	-386,578.7
Net income	177,192.0	166,949.0	111,778.3	-181,243.0	-209,208.6	-286,690.9	-388,939.5
Other comprehensive income: Net unrealized gains on marketable debt securities	0.0	0.0					
Other comprehensive income: Foreign currency translation adjustment, net of tax	4,413.0	47,125.0	0.0	0.0	0.0	0.0	0.0
Comprehensive income	181,605.0	214,074.0	111,778.3	-181,243.0	-209,208.6	-286,690.9	-388,939.5
Less: Comprehensive income attributable to the mezzanine-classified noncontrolling interest shareholders	11,196.0	17,780.0	0.0	0.0	0.0	0.0	0.0
Comprehensive income attributable to noncontrolling interest shareholders	79,927.0	92,407.0	0.0	0.0	0.0	0.0	0.0
Dividend or deemed dividend to noncontrolling Sogou Series A Preferred shareholders	14,219.0	82,423.0	0.0	0.0	0.0	0.0	0.0
Comprehensive income attributable to Sohu.com Inc.	76,263.0	21,464.0	97,648.4	-178,882.2	-206,847.8	-284,330.1	-386,578.7
Basic net income/(loss) per share attributable to Sohu.com Inc.	1.9	-0.4	2.6	-4.7	-5.4	-7.4	-10.1

Shares used in computing basic net income/(loss) per share attributable to Sohu.com Inc.	38,038.0	38,255.0	38,255.0	38,255.0	38,255.0	38,255.0	38,255.0
Diluted net income/(loss) per share attributable to Sohu.com Inc.	1.7	-0.5	2.5	-4.6	-5.4	-7.4	-10.0
Shares used in computing diluted net income/(loss) per share attributable to Sohu.com Inc.	38,392.0	38,502.0	38,502.0	38,502.0	38,502.0	38,502.0	38,502.0

Source: Company filings

Table 8. Balance sheet

USD 000	2012	2013	2014 FCST	2015 FCST	2016 FCST	2017 FCST	2018 FCST
ASSETS							
Current assets:							
Cash and cash equivalents	833,535.0	1,287,288.0	1,496,152.4	1,331,248.5	1,166,436.1	961,101.1	702,332.5
Restricted time deposits	116,140.0	393,087.0	393,087.0	393,087.0	393,087.0	393,087.0	393,087.0
Short-term investments	54,901.0	2,827.0	0.0	0.0	0.0	0.0	0.0
Investments in debt securities	79,548.0	82,009.0	0.0	0.0	0.0	0.0	0.0
Accounts receivable, net	98,398.0	154,342.0	184,946.5	215,227.4	254,912.1	307,053.1	375,723.4
Prepaid and other current assets	55,761.0	132,002.0	158,176.7	184,074.6	218,015.2	262,609.2	321,339.9
Total current assets	1,238,283.0	2,051,555.0	2,232,362.7	2,123,637.5	2,032,450.4	1,923,850.4	1,792,482.8
Fixed assets, net	178,951.0	564,442.0	564,442.0	564,442.0	564,442.0	564,442.0	564,442.0
Goodwill	159,215.0	208,795.0	208,795.0	208,795.0	208,795.0	208,795.0	208,795.0
Intangible assets, net	70,054.0	107,108.0	178,901.5	249,835.3	319,814.9	388,735.2	456,479.8
Restricted time deposits	130,699.0	40,961.0	40,961.0	40,961.0	40,961.0	40,961.0	40,961.0
Prepaid non-current assets	291,643.0	9,527.0	9,527.0	9,527.0	9,527.0	9,527.0	9,527.0
Other assets	13,792.0	16,327.0	19,564.5	22,767.7	26,965.8	32,481.5	39,745.7
Total assets	2,082,637.0	2,998,715.0	3,254,553.7	3,219,965.6	3,202,956.1	3,168,792.1	3,112,433.4
LIABILITIES							
Current liabilities:							
Accounts payable	67,934.0	125,896.0	150,860.0	175,559.9	207,930.5	250,461.7	306,475.7
Accrued liabilities	117,029.0	227,018.0	272,033.5	316,572.9	374,944.2	451,637.1	552,642.7
Receipts in advance and deferred revenue	89,687.0	113,328.0	135,799.8	158,034.0	187,173.2	225,458.5	275,880.7
Accrued salary and benefits	61,722.0	90,901.0	108,925.8	126,760.0	150,132.6	180,841.5	221,285.4
Taxes payable	32,115.0	48,324.0	57,906.2	67,387.0	79,812.2	96,137.4	117,637.8

Deferred tax liabilities	11,878.0	18,813.0	22,543.4	26,234.4	31,071.7	37,427.2	45,797.5
Short-term bank loans	113,000.0	410,331.0	410,331.0	410,331.0	410,331.0	410,331.0	410,331.0
Other short-term liabilities	63,352.0	79,798.0	95,621.2	111,277.0	131,794.8	158,752.8	194,256.8
Contingent consideration	76.0	0.0	0.0	0.0	0.0	0.0	0.0
Total current liabilities	556,793.0	1,114,409.0	1,254,020.8	1,392,156.3	1,573,190.1	1,811,047.2	2,124,307.6
Long-term accounts payable	12,684.0	6,252.0	7,491.7	8,718.3	10,325.8	12,437.9	15,219.6
Long-term bank loans	126,353.0	0.0	0.0	0.0	0.0	0.0	0.0
Long-term taxes payable	1,782.0	24,835.0	29,759.5	34,632.0	41,017.6	49,407.6	60,457.2
Deferred tax liabilities	7,998.0	12,337.0	14,783.3	17,203.7	20,375.9	24,543.6	30,032.7
Contingent consideration	0.0	4,162.0	0.0	0.0	0.0	0.0	0.0
Total long-term liabilities	148,817.0	47,586.0	52,034.6	60,554.1	71,719.3	86,389.1	105,709.5
Total liabilities	705,610.0	1,161,995.0	1,306,055.4	1,452,710.3	1,644,909.5	1,897,436.3	2,230,017.1
Commitments and contingencies							
MEZZANINE EQUITY	61,810.0	0.0	0.0	0.0	0.0	0.0	0.0
SHAREHOLDERS' EQUITY: Sohu.com Inc. shareholders' equity:							
Common stock: \$0.001 par value per share (75,400 shares authorized; 38,326 shares and 38,089 shares, respectively, issued and outstanding as of December 31, 2013 and 2012)	44.0	44.0	44.0	44.0	44.0	44.0	44.0
Additional paid-in capital	378,311.0	601,633.0	601,633.0	601,633.0	601,633.0	601,633.0	601,633.0
Treasury stock (5,889 shares as of both December 31, 2013 and 2012)	-143,858.0	-143,858.0	-143,858.0	-143,858.0	-143,858.0	-143,858.0	-143,858.0
Accumulated other comprehensive income	79,542.0	116,304.0	116,304.0	116,304.0	116,304.0	116,304.0	116,304.0
Retained earnings	770,184.0	752,582.0	850,230.4	671,348.2	464,500.3	180,170.3	-206,408.5
Total Sohu.com Inc. shareholders' equity	1,084,223.0	1,326,705.0	1,424,353.4	1,245,471.2	1,038,623.3	754,293.3	367,714.5
Noncontrolling interest	230,994.0	510,015.0	524,144.9	521,784.1	519,423.3	517,062.5	514,701.7
Total shareholders' equity	1,315,217.0	1,836,720.0	1,948,498.3	1,767,255.3	1,558,046.6	1,271,355.8	882,416.2
Total liabilities, mezzanine equity and shareholders' equity	2,082,637.0	2,998,715.0	3,254,553.7	3,219,965.6	3,202,956.1	3,168,792.1	3,112,433.4
Total liabilities, mezzanine equity and shareholders' equity	2,082,637.0	2,998,715.0	3,254,553.7	3,219,965.6	3,202,956.1	3,168,792.1	3,112,433.4

Source: Company filings

Table 9. Cash flow

USD 000	2012	2013	2014 FCST	2015 FCST	2016 FCST	2017 FCST	2018 FCST
Cash flows from operating activities:							
Net income	177,192.0	166,949.0	111,778.3	-181,243.0	-209,208.6	-286,690.9	-388,939.5
Adjustments to reconcile net income to net cash provided by operating activities:							
Depreciation	38,748.0	54,948.0					
Share-based compensation expense	13,966.0	10,429.0					
Amortization of intangible assets and purchased video content in prepaid expense	63,014.0	75,741.0					
Goodwill impairment and impairment of intangible assets via acquisition of businesses	2,906.0	0.0					
Impairment of purchased video content	15,083.0	0.0					
Impairment of other intangible assets	5,741.0	3,624.0					
Provision /(Reversal) for allowance for doubtful accounts	3,613.0	-120.0					
Excess tax benefits from share-based payment arrangements	-5,591.0	0.0					
Investment income from investments in debt securities	-5,479.0	-5,564.0					
Contribution from noncontrolling shareholders Others	0.0	4,218.0					
Others	-1,183.0	-1,288.0					
Changes in assets and liabilities, net of acquisition:							
Accounts receivable	-14,761.0	-49,432.0	-30,604.5	-30,280.9	-39,684.7	-52,141.0	-68,670.3
Prepaid and other assets	2,807.0	-51,172.0	-26,174.7	-25,897.9	-33,940.6	-44,593.9	-58,730.7
Accounts payable	24,445.0	38,333.0	26,203.7	25,926.6	33,978.1	44,643.2	58,795.7
Taxes payable	5,804.0	20,967.0	14,506.7	14,353.3	18,810.8	24,715.1	32,550.1
Accrued liabilities	35,029.0	95,394.0	43,299.8	46,959.9	61,543.4	80,860.7	106,494.5
Receipts in advance and deferred revenue	14,051.0	12,562.0	22,471.8	22,234.2	29,139.1	38,285.3	50,422.2
Other short-term liabilities	27,202.0	28,344.0	37,578.4	37,181.0	48,727.7	64,022.4	84,318.2
Net cash provided by operating activities	402,587.0	403,933.0	199,059.4	-90,766.9	-90,634.8	-130,899.0	-183,759.7
Cash flows from investing activities:							

Purchase of noncontrolling interest in 7Road	0.0	-76,010.0					
Investment in MoboTap							
Purchase of fixed assets	-89,417.0	-113,842.0					
Purchase of intangible and other assets	-65,130.0	-98,006.0					
Cash paid related to restricted time deposits	-244,849.0	-177,701.0					
Proceeds from /(purchase of) short-term investments, net	-35,785.0	54,398.0					
Other acquisitions, net of cash acquired	-683.0	-33,685.0					
Loans granted to third parties	-4,170.0	0.0					
Loan repayments received from third parties	4,170.0	0.0					
Other cash proceeds related to investing activities	6,083.0	6,009.0					
Other cash payments related to investing activities	-2,814.0	-2,792.0					
Net cash used in investing activities	-432,595.0	-441,629.0	9,805.0	-74,137.1	-74,177.6	-74,436.0	-75,008.8
Cash flows from financing activities:							
Issuance of common stock	790.0	1,915.0					
Issuance of Sogou Series B Preferred Shares and Class B Ordinary Shares	0.0	476,948.0					
Sohu's purchase of Sogou Series A Preferred Shares from Alibaba	-25,800.0	0.0					
Repurchase of common stock	-12,566.0	0.0					
Repurchase of Changyou American depositary shares ("ADSs")	0.0	-17,240.0					
Purchase of shares in subsidiary	0.0	0.0					
Portion of Changyou dividend distribute to noncontrolling interest shareholders	-64,551.0	0.0					
Portion of Sogou special dividend distributed to holders	0.0	-139,700.0					



Sohu.com Inc. (SOHU US)

Anne Stevenson-Yang

+86 139 1082 0535

anne@jcapitalresearch.com

Matthew Lowenstein

+1 646 400 1424

matt@jcapitalresearch.com

of Series A Preferred Shares other than Sohu								
Proceeds of loans from offshore banks	239,353.0	167,000.0						
Payment of contingent consideration	-13,806.0	-19,736.0						
Excess tax benefits from share-based payment arrangements	5,591.0	0.0						
Exercise of share-based awards in subsidiary	1,353.0	1,794.0						
Proceeds received from early exercise of share-based awards in subsidiary	0.0	5,278.0						
Payment of transaction expenses for issuance of Sogou Series B Preferred Shares and Class B Sogou Series B Preferred Shares and Class B Ordinary Shares	0.0	-5,918.0						
Other cash proceeds /(payments) related to financing activities	-1,647.0	0.0						
Net cash provided by /(used in) financing activities	128,717.0	470,341.0	0.0	0.0	0.0	0.0	0.0	
Effect of exchange rate changes on cash and cash equivalents	2,219.0	21,108.0	0.0	0.0	0.0	0.0	0.0	
Net increase in cash and cash equivalents	100,928.0	453,753.0	208,864.4	-164,904.0	-164,812.4	-205,335.0	-258,768.6	
Cash and cash equivalents at beginning of year	732,607.0	833,535.0	1,287,288.0	1,496,152.4	1,331,248.5	1,166,436.1	961,101.1	
Cash and cash equivalents at end of year	833,535.0	1,287,288.0	1,496,152.4	1,331,248.5	1,166,436.1	961,101.1	702,332.5	
Cash and cash equivalents at end of year	833,535.0	1,287,288.0	1,496,152.4	1,331,248.5	1,166,436.1	961,101.1	702,332.5	

Source: Company filings

Disclaimer

This publication is issued by J Capital Research ("J Capital"). This publication has been prepared for the general use of the clients of J Capital and unauthorized copying or distribution is prohibited. Nothing in this document shall be construed as a solicitation to buy or sell any security or product. In preparing this document, J Capital did not take into account the investment objectives, financial situation and particular needs of the reader. Before making an investment decision, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. J Capital accepts no liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this publication and/or further communication in relation to this document.