



**HEAVY HITTERS**

# Short seller accuses Iqiyi of revenue fraud

*Allegations about the 'Netflix of China' follow on the heels of Luckin Coffee's fraud disclosure.*

by **Wei Sheng** Apr 8, 2020



A short seller firm has accused Chinese video-streaming platform Iqiyi of reporting inflated revenue figures and user numbers in 2019, following just

days after US-listed Luckin Coffee's explosive revenue fraud disclosure on Thursday.

**Why it matters:** The Beijing-based company often referred to as the "Netflix of China" is another high-profile target for short sellers following beverage chain Luckin Coffee's **spectacular downfall**, as US-listed Chinese companies find themselves under increasing scrutiny.

**Details:** Muddy Waters Research **tweeted** a link to a Wolfpack Research report on Tuesday, alleging that Iqiyi had inflated its 2019 revenue by 27% to 44% and overstated user numbers by 42% to 60%.

- The Wolfpack report claimed Iqiyi had also blown up its expenses, the prices it pays for content, other assets, and acquisitions "in order to burn off fake cash to hide the fraud from its auditor and investors."
- The research, which Muddy Waters assisted with, included a survey of 1,563 people in Iqiyi's target demographic which found that VIP users of the video streaming site often scored free memberships through package deals with its partners, including Xiaomi TV and JD.com.
- The company records the membership revenue in full and lists its partner's share as expenses, inflating both revenue and expenditures, according to the report.
- Iqiyi said in a **statement** Wednesday that a report by short seller Wolfpack Research "contains numerous errors, unsubstantiated statements and misleading conclusions and interpretations."
- Nasdaq-listed Iqiyi did not provide details backing its claims about the report, but said that it has always been committed to maintaining "high standards of corporate governance and internal control" in compliance with US securities regulations.
- Iqiyi could not be immediately reached for comment.

**What's next:** Dan David, the founder of Wolfpack Research, said in an **interview** with Bloomberg TV Wednesday that the downside of the report to Iqiyi would be "unlimited" if there was a "truly independent investigation" into the company's alleged fraud.

- Meanwhile, Holzer & Holzer, a US-based law firm, **announced** Wednesday it is investigating whether Iqiyi violated federal securities laws.

*"In the last 10 years, we've been responsible for delisting over a dozen China-based companies for fraud, [but] nobody has gone to jail, nobody has paid a fine. It is not illegal in China to steal from US investors."*

*— Dan David, the founder of Wolfpack Research, on Bloomberg TV*

**Context:** Iqiyi's share prices fell 11.2% Tuesday morning before bouncing back to gain 3.2% by market close.

- Shares of Chinese search engine Baidu, Iqiyi's parent company, also tumbled nearly 5% Tuesday morning on the allegations.
- Luckin Coffee has seen its shares plunge nearly 80% in the past days after it **announced** last week one of its top executives and several employees fabricated transactions in 2019 totaling around RMB 2.2 billion (around \$310 million).
- The announcement came two months after short seller Muddy Waters Research **publicized** on social media an anonymous report which claimed the company had been inflating operational, sales, and revenue numbers.