“The Markets Need More Skeptics”

- The Economist on Wirecard

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COMPANY: SEEK Ltd | ASX: SEK
INDUSTRY: Business/Consumer Services

PRICE (AS OF CLOSE 10/28/20)
AUD 22.86

MARKET CAP
AUD 8.1 BILLION

30 DAY AVG VOLUME
1 M SHARES

BLUE ORCA VALUATION
AUD 7.20

Seek Limited (ASX: SEK) (“Seek” or the “Company”) is an Australian-listed roll-up of online recruiting platforms. Even though its legacy platform in Australia (seek.com.au) is stagnating, Seek trades at 404x forward earnings because of the Company’s claims that its most important business, Chinese online recruiting platform Zhaopin, is China’s #1 player and growing rapidly. In FY 2020, Zhaopin accounted for 48% of the Company’s consolidated revenues, and was Seek’s only segment which reportedly grew revenues and profits.

However, our due diligence reveals that Zhaopin’s platform is inundated with fake postings by companies which were deregistered, in liquidation or flagged as “abnormal operations” by Chinese authorities. **Companies we called about their job postings on the website even stated directly that the posts were fraudulent.** Our due diligence also uncovered a whistleblower claim by a Chinese college student alleging that Zhaopin pays people to submit fake resumes.

We think Zhaopin’s platform is rotten, which is devastating for Seek’s prospects. Seek has historically paid a dividend, giving the false impression that its business produces healthy profits and cash flows. But these payments have been largely funded by debt. A serial acquirer, Seek has repeatedly tapped the capital markets to fund acquisitions, raising its Net Debt-to-reported EBITDA to 3.2x. By our calculation, Seek’s true leverage is much higher.

Rather than valuing Seek as a fast-growing online recruiting platform, we value Seek for what it is—a slow or no-growth platform whose core business is shrinking and which carries a dangerous amount of debt. Even if we value Seek’s Australian and non-China businesses at a generous 20.5x EV/adjusted EBITDA, we believe Zhaopin merits a substantial discount. We value Seek at AUD 7.20 per share, a 69% downside from its last traded price.

1. Zhaopin’s High End Jobs Platform Lists Mostly Fake or Expired Posts. Highpin is Zhaopin’s online recruiting platform for high-end jobs with an annual salary above RMB 100,000. Prominently featured on Zhaopin’s website, Seek has implied that the platform generates tens of millions of annual revenues and that Highpin will be a key driver of Zhaopin’s growth in China. Yet our due diligence revealed that the vast majority of the posts on Highpin appear to be either fake or expired. Of the 3,000 postings for high-end jobs, **44% were expired**. Of the remaining posts, many were posted either by companies in liquidation, companies with minimal operations, or companies designated by Chinese authorities as in non-compliance with regulatory requirements or in “abnormal operations.” **One prominently featured company denied posting on Highpin and stated explicitly that the posts attributed to them were fake.** Another company**, which accounted for 12% of the posts on the high-end job platform, was already in liquidation before supposedly posting for 360 openings**. This indicates that Seek has been **overstating Highpin’s revenues** and misleading investors regarding Highpin’s contribution to the Company’s growth.

2. Fake Resumes on Zhaopin. In 2019, a college student made detailed whistleblower allegations that Zhaopin paid people **pretending** to be jobseekers to submit **fake resumes** to jobs on its platform. The student admitted that he submitted 11,400 fake resumes in a month. Zhaopin denied the allegations, but our due diligence found several recent allegations by employers complaining that Zhaopin is so riddled with fake resumes that the platform is essentially useless. Together with evidence of fake job postings, allegations of fake resumes paint a bleak picture of the recruiting site. This suggests Seek has misrepresented Zhaopin’s growth and performance; and corroborates independent traffic data indicating Zhaopin’s relative popularity is plummeting.

3. **Main Zhaopin Platform Inundated with Fake Posts**. To vet Zhaopin, we designed an algorithm to scrape the main platform to determine which companies posted the most job openings. We analyzed the results for three, randomly selected, major cities in China where Zhaopin claims to be strongest. We then conducted due diligence on the top 100 companies in each city, as they accounted for a disproportionate number of job posts in these places. Many of the postings from the top 100 in these three cities were from companies which were deregistered, or whose operations were labelled "abnormal" by China authorities. We also found hundreds of posts from companies with no website or WeChat account – many of these businesses were simply uncontactable. In another instance, when we called, **the employer denied ever posting for positions on Zhaopin and told us that the posts were fake**. In other instances, **users identified posts as fake**.

   This has two implications for investors. First, since the fake posts are supposedly posted by Zhaopin's customers, we question the authenticity of Zhaopin's reported revenues. Second, our study suggests that Zhaopin's popularity will only continue to plummet. After all, why would a job seeker bother with a platform with so many fake posts?

4. **Seek Misrepresents Zhaopin as the #1 Platform in China**. Seek claims that Zhaopin is the number one employment platform in China. Yet we reviewed the QuestMobile data and it shows otherwise—not only is Zhaopin's popularity similar to 51job's, but Zhaopin **lost** its leading position to BOSS Zhipin ("BOSS") in August 2019. By August 2020, BOSS's monthly active users were 60% greater than Zhaopin's, indicating Zhaopin is nowhere near the #1 platform in China.

5. **Profits Inflated by Questionable Non-Cash Gains and Aggressive Accounting**. On paper, Seek appears profitable. But look closer and such paper profits were facilitated by dubious non-cash gains and questionable step-up transactions with related parties. From FY 2015-2018, Seek reported cumulative fair value gains of AUD 336 million. Except for FY 2016, non-cash gains made up 26-41% of Seek's annual profits.

   a. **Maimai**. In FY 2018, Seek recognized a non-cash gain of AUD 59 million on its investment in Maimai, a China-based career and social-networking platform. This gain made up 34% of Seek's reported profit that year. According to Seek, Maimai's valuation increased 4x in 180 days from the time of its initial investment. Seek claimed Maimai was worth USD 250 million in November 2017, but worth USD 1 billion six months later when it completed a subsequent round of fund raising. Yet this valuation is directly contradicted by Maimai's CEO, who **stated unambiguously** that Maimai was already worth nearly USD 1 billion at the time of Seek's initial investment. Rather than quadruple in value, Maimai was already nearly a unicorn when Seek invested. In our opinion, Seek simply conjured 34% of its profit by inappropriately recognizing a non-cash gain on investment.

   b. **Step-Up Transactions**. Seek has also recognized non-cash gains from a particularly dubious accounting trick: step-up transactions; in which Seek marks up the value of its initial investment when it increases its stake in a portfolio company. Since Seek is the buyer, the Company has full discretion to inflate the price of its subsequent investments. This appears particularly questionable with respect to Seek's step-up transaction in Online Education Services. Not only did OES's profitability decline immediately after the transaction, but Seek's current chairman was affiliated with the seller.

6. **Misleading EBITDA: apples-to-oranges**. Seek is usually compared to 51job, a US-listed operator of a Chinese online recruiting platform. But the comparisons mistakenly rely on Seek's reported EBITDA, which excludes significant capitalized software development costs and fails to back out minority interest. For valuation, we believe investors must adjust Seek's EBITDA for both. On an apples-to-apples basis, Seek is currently trading at 47x NTM EV/EBITDA and its net-debt-to-EBITDA ratio is a toxic 4.8x. This shows not only that the Company is significantly overvalued compared to other online recruiting platforms like 51job which do not capitalize such software costs, but also that Seek is dangerously over-levered.

VALUATION

Seek is a roll-up of flat-growth online recruiting platforms and a supposedly fast-growing Chinese platform, Zhaopin, which Seek claims is the #1 player in China. We think this picture is false. Rather, our investigation suggests that Seek is a flat-growth Australian platform rolled up with a fading Chinese online recruiting platform besot by fake resumes and fake job postings.

Rather than valuing Seek as a fast-growing online recruiting platform, we value Seek for what it is—a slow-growth platform whose core business is shrinking and that carries a dangerous amount of debt.

To value Seek, we use a sum-of-the-parts methodology. We assign Seek's legacy Australian and non-China businesses a **generous** 20.5x EV/EBITDA multiple, the same multiple at which 51job is being taken private. However, we think Zhaopin is worth far less.

There is overwhelming evidence that Zhaopin is a fading platform inundated with fake job postings and fake resumes. This is likely to have a compounding effect on the already declining popularity of the platform. The more fake resumes on the site, the fewer employers will pay to post. The fewer real employers, the more fake posts will appear, further driving away job seekers. This will likely beget even more fake resumes, creating a vicious downward spiral.

Not only does our due diligence suggest that Zhaopin has been misrepresenting the activity on its platform to investors, we believe that the volume of fake resumes and posts requires at least a 30% discount on the valuation multiple of the Chinese platform.

Unlike 51job, Seek excludes development costs and minority interest in its reported EBITDA. To make the comparison flush, these two items should be deducted from EBITDA when valuing the Company. The two items contributed AUD 156 million to Seek's reported EBITDA in FY2020 and an estimated AUD 134 million in FY2021.[1]

AUD M	FY 2020	FY 2021E
Reported/Guided EBITDA	414.9	330.0
Capitalized Development Costs	(107.4)	(95.3)
Zhaopin's EBITDA belonging to minority interest	(48.1)	(38.3)
Adjusted EBITDA	**259.4**	**196.4**

Source: Seek Public Filings, Blue Orca Calculation

After adjusting for the estimated capitalized development costs and Zhaopin's minority interest, we estimate that Seek's NTM EBITDA will be AUD 196 million. We value Seek at AUD 7.20 per share, a 69% downside from its last traded price.

AUD M	AP&A, others	Zhaopin (61%)	Seek
Adjusted NTM EBITDA	136	60	196
EV/EBITDA Multiple	20.5 x	14.4 x	18.6 x
EV	2,798	864	3,662
Forecasted Net Debt FY2021	999	121	1,120
Adjusted Seek equity value	1,799	743	2,542
# of shares outstanding (M)			353
Blue Orca Valuation (AUD)			7.20
Last Traded Price (AUD)			22.86
Downside %			**-69%**

Source: Blue Orca Calculation

Note: Applied 30% of platform Obsolescence due to Fake Posts Discount to Zhaopin

[1] Used the average capitalized development costs for the past three years in our estimate. Assuming each segment's contribution to Seek's guided FY 2021 EBITDA remains the same, we estimate that Zhaopin's EBITDA would be AUD 98 million in FY 2021 and that only AUD 60 million would be attributable to the owners of Seek.

We consider this valuation to be very conservative. Seek's guidance for net profit after tax is AUD 20 million in FY 2021. Even if we generously apply a 100x NTM P/E multiple to its guided EPS, Seek's shares would be worth only AUD 5.67 per share.

Guidance	AUD
FY2021 NPAT (AUD M)	20
# of shares outstanding (M)	353
FY2021 EPS (AUD)	0.06
NTM P/E Multiple	**100 x**
Valuation	**5.67**

Source: Seek Public Filings, Blue Orca Calculation

In our opinion, Seek's shares are grossly mispriced. Nor should Covid-19 provide any cover. Seek's Chinese business should have already emerged from the worst effects of the virus in its last fiscal year (ending June 2020), as the virus had retreated by then in China. We have no doubt that Seek will blame the virus for its terrible results. But investors should not be fooled: our examination of its primary Chinese platform shows the rot preceded the pandemic.

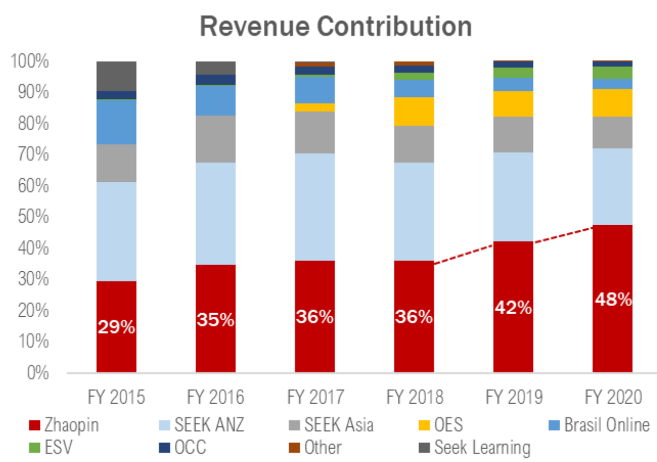
SEEK IS NOW A STORY OF ZHAOPIN

A roll-up of international online recruiting platforms headquartered in Melbourne, Seek's core business used to be its Australian recruiting website, www.seek.com.au, launched in 1998. Today, Seek's fortunes and the lofty multiple at which its stock trades, rest on the alleged popularity and growth of its Chinese recruiting platform, Zhaopin.

Zhaopin was previously listed on the New York Stock Exchange for three years but delisted in 2017 after struggling to gain traction in the U.S. markets. Today, Seek owns 61% of Zhaopin, allowing the Australian-listed company to fully consolidate the Chinese business in its financial statements.

Even before Covid-19, Zhaopin's reported growth and profitability were increasingly important to Seek's financials. In FY 2015, Zhaopin contributed 29% of Seek's consolidated revenues. By FY 2020, Zhaopin accounted for 48% of Seek's reported revenues, making the Chinese platform by far Seek's largest and most important business.

Zhaopin's Revenue Contribution to Seek



Source: Seek Annual Reports

As the growth of Seek's legacy platforms in Australia and South East Asia have stalled, Zhaopin's importance to the Company has only increased. **In Seek's latest financials, Zhaopin was the only major segment to report growth in both revenue and EBITDA**.

FY20 Financials (A$m)[1]

Revenue	FY20	FY19	Growth %	Constant Currency %
SEEK ANZ	387.2	440.0	(12%)	(12%)
SEEK Asia	162.9	176.6	(8%)	(14%)
LatAm	77.5	90.6	(14%)	(11%)
AP&A Other	2.0	2.5	(20%)	(20%)
AP&A	**629.6**	**709.7**	**(11%)**	**(13%)**
Zhaopin	749.6	647.9	16%	12%
OES	136.6	127.5	7%	7%
ESVs	61.6	52.2	18%	18%
SEEK Investments	**947.8**	**827.6**	**15%**	**12%**
Total Revenue	**1,577.4**	**1,537.3**	**3%**	**1%**
EBITDA				
SEEK ANZ	223.5	263.8	(15%)	(15%)
SEEK Asia	72.8	91.3	(20%)	(26%)
LatAm	13.0	16.5	(21%)	(19%)
AP&A Other	(14.3)	(18.1)	(21%)	(21%)
AP&A	**295.0**	**353.5**	**(17%)**	**(18%)**
Zhaopin	123.7	99.1	25%	21%
OES	34.8	36.7	(5%)	(5%)
ESVs	(6.8)	(9.3)	(27%)	(27%)
SEEK Investments	**151.7**	**126.5**	**20%**	**17%**
Corporate Costs	(31.8)	(25.0)	27%	27%
Total EBITDA[2]	**414.9**	**455.0**	**(9%)**	**(11%)**

Source: Seek FY 2020 Results Presentation, p. 10

Seek's shares currently trade at 89x recurring LTM earnings and 404x forward earnings (based on the Company's latest profit guidance). The stock trades at a multiple befitting a fast-growing tech platform because of Seek's dual claims that Zhaopin is the #1 employment recruiting platform in China and that Zhaopin continues to grow rapidly. We think both are false.

QuestMobile data shows that Zhaopin is far behind the industry leader and falling. Rather than the thriving #1 online recruiting platform in China, we believe that Zhaopin's platform is beset by fake resumes and fake posts. Zhaopin is the foundation of Seek's share price and, going forward, its ability to service its increasingly toxic levels of debt. We think that Zhaopin has grossly exaggerated its performance, and that the platform is worth considerably less than investors realize.

ZHAOPIN'S HIGH-END JOB BOARD APPEARS TO BE MOSTLY FAKE OR EXPIRED POSTS

Zhaopin operates a suite of five online recruiting websites in China, consisting of its main platform, and specialized websites targeting discrete sections of the job market—government jobs, campus recruiting, overseas recruiting, and high-end jobs—for Chinese nationals.

Launched in 2013, Highpin targets the high-end employment market in China, and supposedly only permits posts for positions with an annual salary of RMB 100,000 or more.

> *High-end Employment.* In October 2013, we launched *Highpin*, *www.highpin.cn*, which targets the high-end employment market. On "*highpin*", we only post employment positions with annual salaries of RMB100,000 or more, covering industries including information technology, financial services, real estate, automotive and consumer products. Highpin attracts individual recruiters to recommend high-end job opportunities to potential candidates who typically hold professional or managerial positions. These job opportunities attract a

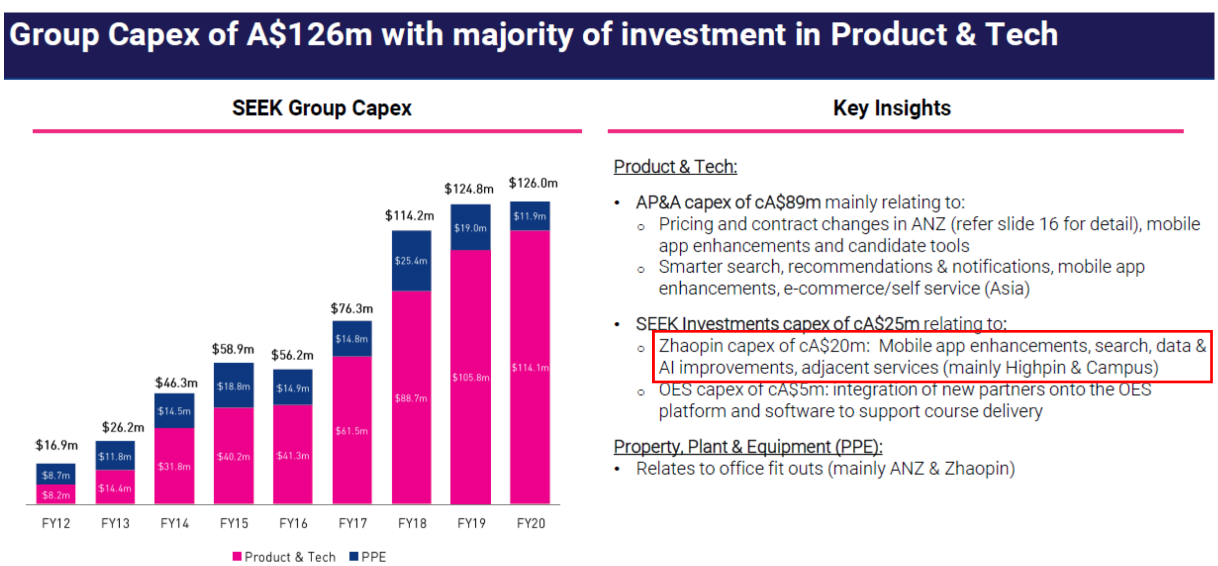
Source: Zhaopin Prospectus

Highpin is prominently featured on Zhaopin's homepage, which directs applicants seeking high-end salary positions to Highpin's website.

Source: https://www.zhaopin.com/

Although Seek does not break out Highpin's performance in its financials, Seek **has implied to investors that Highpin generates at least tens of millions of dollars in annual revenue**.[2]

Highpin's importance is also evident from Seek's continued investment in the platform. In FY 2020, the Company claimed it invested AUD 20 million in Zhaopin, most of which went to Highpin's recruiting platform.



Source: Seek FY 2020 Results Presentation

Seek has also told investors for years that Highpin will be a key driver of Zhaopin's growth in China.

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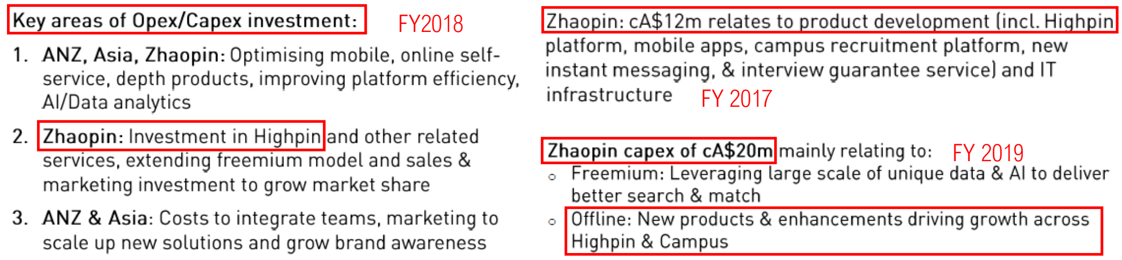
[2] In FY 2018 earnings call, Seek stated that Highpin's revenue percentage contribution is in the "single digits" but growing faster than the overall growth rate. Excluding the new BPO revenue, Zhaopin generated AUD 558 million in FY2020. Assuming Highpin's revenue contribution is mid-single digits (5%), then it would be AUD 28 million.



Source: Seek FY 2017-2019 Investor Presentations

Such growth is critical to the financial health of the Company, given Seek's tenuous leverage and high debt servicing costs.

Yet our due diligence reveals that Highpin is mostly populated with fake or expired job posts, suggesting that Seek has been overstating Highpin's revenues and misleading investors regarding Highpin's contribution to the Company's growth.

Highpin lists 3,000 postings for high-paying jobs. Many of the posts appear to be conspicuous fakes. They were posted either by companies in liquidation or companies designated by Chinese authorities as in non-compliance with regulatory requirements or in "abnormal operations." **One prominently featured company even denied posting on Highpin and stated explicitly that the posts attributed to them were fake.**

Take the most prominent example. Geng Ma Wei Hong Real Estate Development Co., Ltd. ("GMWH") has the 4th highest number of postings on Highpin by any employer and claims to be recruiting for many positions.[3]

Source: https://www.highpin.cn/position/CompanyIndex?companyId=1246997

Yet when we contacted GMWH, the company denied posting on Highpin **and even stated that they had never heard of the platform**. This company was supposedly one of the most frequent posters to the online recruiting platform, yet it **stated point blank that the posts were fake**.

Another frequent poster on Highpin was Dongguan Huamai Management Consulting ("Huamai"). According to Highpin's recruiting website, Huamai is a consulting firm in the metal manufacturing industry that employs 10,000 individuals and posted openings on Highpin's platform for another 360 positions.

With 360 posts for high-paying jobs, Huamai accounts for 12% of the high-paying positions offered on Highpin's platform.

[3] Based on the postings scraped on October 22, 2020.

Source: https://www.highpin.cn/position/CompanyIndex?companyId=177004

Huamai posted multiple openings for engineers and other positions with annual salaries ranging from RMB 150,000 to RMB 350,000.

Source: https://www.highpin.cn/job/b1489671.html
Note: Huimai's job posts are updated frequently

Yet according to Chinese corporate records, Huamai filed for liquidation of its business in August 2020. This means that the **employer filed to <u>dissolve</u> its business <u>before</u> supposedly posting 360 high-paying positions on Highpin's website**.

Source: https://www.qcc.com/firm/637FHX2.shtml#fengxian

We think it is highly unlikely that a company is legitimately hiring 360 new employees for high-paying jobs **<u>after</u>** filing to wind up its business.[4]

This fit a pattern. Highpin's largest customer by total job posts, the Harbin Institute of Technology Boyan Higher Education Training Center ("<u>HIT Training Center</u>"), claimed to be hiring for 389 positions.[5] The HIT Training Center accounted for 13% of the total posts for high-paying jobs on Highpin's platform. It even advertised for positions in Taiwan.

[4] We contacted Huamai and while it claimed to be hiring, it admitted that its entity was already deregistered, and the number of open positions were far fewer than what it posted on the platform. It also admitted that contrary to Chinese law, it did not provide the mandatory employee benefits it advertised in its posts. We doubt these posts are authentic, and other Chinese job seekers commenting online also suspect that it is a scam.
[5] On October 22, 2020

Source: *https://www.highpin.cn/job/b1492531.html*

We doubt these posts are all real. First, the language center is tiny, making it unlikely that it could afford or hire for the hundreds of high-paying jobs it is advertising on Highpin. According to its disclosures, the HIT Training Center has 20 to 99 employees and provides Russian language courses. Since inception, the center has provided Russian training to only 1,000 people and study abroad service to 800+ students.

HIT Training Center Posted 389 Openings (October 22, 2020)

Source: *https://www.highpin.cn/position/CompanyIndex?companyId=1083178*

Second, we called the HIT Training Center. Although they claimed to be hiring, they admitted that some of the posts are fake, such as their posts advertising positions open in Taiwan. When we inquired about the positions, they refused to acknowledge that they even used Highpin as a recruiting platform and became highly defensive when we asked about these posts. Although they may be hiring, we doubt the authenticity of hundreds of supposed positions when HIT refuses to acknowledge that they even use the Highpin platform.

The more we looked, the more companies we found on Highpin's platform which are flagged by Chinese regulators as in "**abnormal operations**," an unusual designation by Chinese authorities meaning the businesses filed false or misleading disclosures, are uncontactable or are not in compliance with PRC requirements. We tried to contact them at their registered phone numbers, but these numbers were invalid or suspended.

Because of the volume of posts, we cannot verify the authenticity of each one. But even without reviewing them all, we believe that at least 71% of the posts are expired, obviously fake or of dubious authenticity.[6]

[6] Postings were scraped on October 22, 2020

Employer	# of Job Post	Note	Source
HIT Training Center 哈尔滨工业大学博研高等教育培训中心	389	Admitted that some of the posts are **fake** and refused to even acknowledge that they used Highpin	Link
Huamai 东莞市华迈企业管理咨询有限公司	360	**Deregistered**	Link
GMWH 耿马伟弘房地产开发有限公司	27	Denied posting on Highpin **and even stated that they had never heard of the platform**	Link
Beijing Chuke Education Consulting 北京初刻教育咨询有限公司	10	**Abnormal operations** since July 2019. Provided education consulting but job posts include real estate sales, luxury goods sales, etc. Registered phone number is invalid.	Link
Harbin Yunmeng Network Technology 哈尔滨云盟网络科技有限公司	14	**Abnormal operations** since July 2020. Business scope is IT related, but job posts include Russian tutor. Registered phone number is not in service	Link
Zhongrun Baifa (Beijing) Trading 中润百发(北京)商贸有限公司	6	**Abnormal operations** since March 2019 (could not be reached at registered address). Business scope: selling hats, shoes, etc, but job posts include securities or futures trading positions. Registered phone number unanswered.	Link
Zhenxiong Meiqifang Decoration Co., Ltd. 镇雄美漆坊装饰有限公司	6	Hung up after inquiry about job posts on Highpin	Link
Yantai Zhihao Intelligent Technology Co., Ltd. 烟台市智昊智能科技有限公司	3	**Abnormal Operations** since December 2018	Link
Beijing Unison Consulting Service Co., Ltd. 北京优利森咨询服务有限公司	1	**Deregistered** in August 2020, filed for deregistration in July and the date of job post was in August	Link
Subtotal	816		
Expired posts	1,309		
# of suspicious or expired posts	**2,125**		
Total posts on Highpin	**3,000**		
%	**71%**		

- **Expired Posts**

When we scraped the 3,000 postings on Highpin in mid-September, the results showed that 878 positions were posted in 2019. When we clicked on those posts, it showed that these positions were expired.

Source: https://www.highpin.cn/job/b1122300.html

The number of expired job posts increased over time. In October, we scraped the posts on Highpin again and the number of expired posts jumped to 1,309. In other words, **44% of postings on Highpin were expired**.

- **Recycled Posts**

Our due diligence also suggests that Highpin is recycling its posts to mask its unpopularity. We scraped the job postings on Highpin on September 18, 2020 and October 7, 2020. Between these 19 days, the number of employers increased from 808 to 1,075. Curiously, the number of job postings remained at 3,000.

According to the web scrapes, 344 new companies were added to the platform since September 18, 2020. However, almost all of these posts from newly added companies were **expired**.[7]

	# of Hirers
On 9/18/2020	808
Hirers added to platform with all expired posts	**306**
Hirers added to platform with new posts	38
Hirers that left	(77)
On 10/7/2020	1,075

Source: Highpin website scrapes

Newly added employers would not submit expired posts. Yet almost all off the newly added companies were associated with expired posts from 2019. We think this is clear evidence that Highpin is recycling old posts. Based on our review, at least 18% of Highpin's posts are recycled, we suspect either to drive fake web traffic or to mislead job seekers (or investors) about the popularity of Highpin platform.

- **Fake Revenues**

The number of fake and expired posts also suggests that Zhaopin may be overstating revenue from the Highpin platform.

We monitored Highpin for five weeks and scraped its postings four times. The results showed that after eliminating expired posts, there were an average of only 309 companies which were potentially paying to advertise openings on Highpin.

	09/18/20	09/23/20	10/07/20	10/22/20	Average
# of hirers with active posts	334	329	294	278	309
Reported FY2020 average revenue per online customer (AUD)	511	511	511	511	511
Implied revenue contribution from Highpin (AUD)	**170,523**	**167,970**	**150,101**	**141,932**	**157,632**

Source: Seek FY2020 Result Presentation, Highpin website scrapes

Note: 1. These numbers include all the suspicious hirers discussed above. 2. Exchange rate RMB to AUD: 4.83

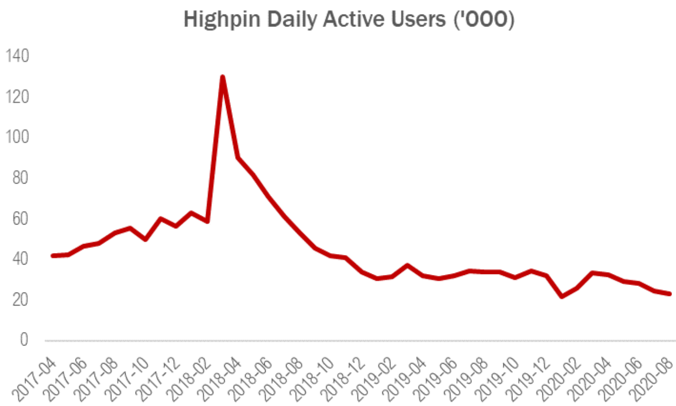
Seek has suggested to investors that Highpin generates at least tens of millions of AUD in annual revenues. But we believe this claim is false.

Seek claims that the average Zhaopin customer pays AUD 511 (RMB 2,466) per year. With only an average of 309 companies posting on the Highpin platform, this suggests that Highpin generates a paltry **AUD 157,632 per year**. **This revenue is a tiny fraction of the tens of millions of revenues Seek claims to derive from the platform**.

The high number of fake and expired posts are corroborated by Highpin's declining website traffic. QuestMobile data shows that Highpin's daily active users were only 23,250 in August 2020, and that the platform's popularity is in steady decline.[8]

[7]Specifically, 306 of the newly added companies in October 2020 had expired posts from 2019. Companies would be unlikely to join the platform to post expired listings from 2019, so we think it is obvious that Highpin is recycling old postings to fake its popularity.

[8] QuestMobile tracks the daily active users of Highpin's mobile application.



Source: QuestMobile Data

QuestMobile data reveals that Highpin's platform is unpopular. Whatever limited popularity it once briefly enjoyed is quickly declining. This makes sense. Why would candidates who qualify for a high paying job waste time with a platform consisting of mostly fake or expired posts?

This has three implications for investors.

First, we suspect that the large capital expenditures reportedly allocated to Highpin in the last few years are either inappropriately capitalized expenses or simply fabricated to conceal the platform's limited usage and dwindling popularity. We believe Seek should be required to immediately write down a substantial portion of the intangible assets associated with its clearly failing platform.

Second, Highpin has been repeatedly mentioned by Seek in presentations to investors as an important platform driving Zhaopin's growth and performance. If the platform consists of mostly fake and expired posts, it is fair to conclude that Zhaopin's performance and prospects have been misrepresented to investors.

Third, Seek has implied that Highpin has generated at least tens of millions in revenues, which we think is highly unlikely considering we observed only an average of 309 customers in 5 weeks of scraping the platform. We think Seek has therefore misled investors about revenues from this business and therefore from Zhaopin.

FAKE RESUMES ON ZHAOPIN

Zhaopin's importance to Seek's stock price cannot be understated. It is by far Seek's biggest segment, accounting for 48% of the Company's consolidated revenues in FY 2020. It is also, on paper, the only part of its business that is not reporting declining revenues or EBITDA, a critical engine for future cash flows to service Seek's alarming debt. Yet there is considerable evidence that Zhaopin's core business is also declining, including allegations that the platform is inundated with fake resumes.

In 2019, a college student made detailed whistleblower allegations that Zhaopin paid people to submit fake resumes to jobs on its platform. The student stated that he was tasked by Zhaopin to find people **pretending** to be jobseekers and submit their fake resumes to job postings on Zhaopin.

马海是一名在校学生，3月以来，他发的一则投诉智联招聘雇佣水军刷简历投递率的帖子在网上流传。据悉，从2018年12月起，通过层层外包，马海接到为智联招聘找人假装求职者投递简历的任务。成功投递一份简历，马海可获得4元报酬。马海说，这样是为了向第三方公司投递假简历，造成智联招聘很受欢迎的假象，让第三方公司继续投钱使用智联招聘平台。

In March (2019) Ma Hai, a current college student, posted a compliant that Zhaopin hired people to post resumes to boost resume submission rates. It is reported that since December 2018, through multiple layers of outsourcing, Ma Hai received the task of finding people to **pretend** to be job seekers for Zhaopin and submitting their resumes…Ma Hai said that sending **fake resumes** to third-party companies creates the illusion that Zhaopin is very popular so that these companies would continue to pay to use Zhaopin's platform.

Source: http://finance.china.com.cn/industry/20190312/4920149.shtml

The student admitted that he submitted 11,400 fake resumes in a month.[9]

1月25日之前，马海每天找人做简历投递，并按日结算。到了后期，由于马海的上家和智联公司员工郭女士之间产生利益纠纷，导致马海无法收到应得款项，此时马海先生已完成11400单，未结工资近4万元。

Before January 25, Ma Hai found someone to submit their resume every day and got paid daily. In the later stages, due to disputes between Ma Hai's employer and Ms. Guo, an employee of Zhaopin, Ma Hai did not receive the payments. At that time, Ma Hai had completed 11,400 submissions and earned unpaid compensation of nearly RMB 40,000.

Source: http://finance.china.com.cn/industry/20190312/4920149.shtml

The scheme was exposed when the student had a dispute regarding payment for his work. For its part, Zhaopin denied the allegation and claimed it was only a marketing promotion.

But this was not an isolated incident. Our diligence found many complaints and negative reviews from **employers** complaining that Zhaopin's platform is so inundated with **fake resumes that the platform is essentially useless**.

For example, in July 2020, one employer filed a complaint stating that there were simply too many fake resumes on the platform for it to be useful.

前期办理会员、销售人员夸大招聘效果，平台虚假简历太多

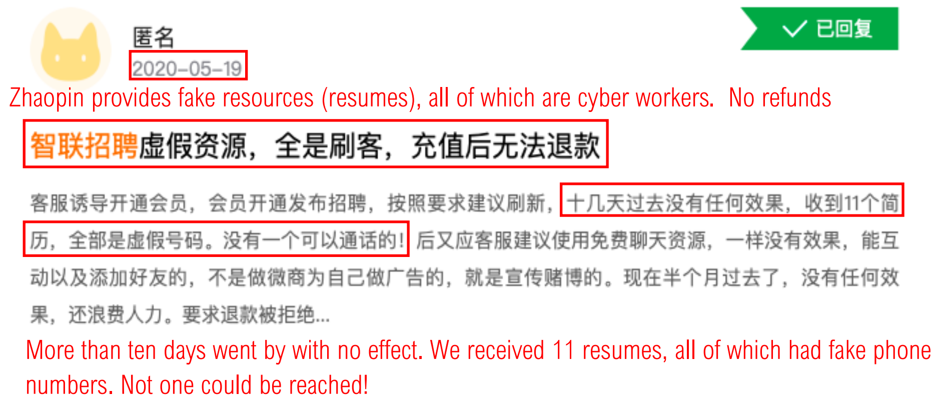
When signing up for membership, sales reps exaggerated the recruitment effect. The platform has too many fake resumes.

匿名 发布于 2020年07月16日 11:08 Published on July 16, 2020

Source: https://tousu.sina.com.cn/complaint/view/17350298080/

[9] The article stated that only 20% of the 11,400 submissions passed Zhaopin's system. It was unclear how many submissions the student submitted the months prior.

Another employer filed a similar complaint in May 2020, complaining that **all the resumes they received were fake**. The phone number provided on the resumes were all fake and none of phone numbers could be reached.


匿名
2020-05-19
已回复
Zhaopin provides fake resources (resumes), all of which are cyber workers. No refunds

智联招聘虚假资源，全是刷客，充值后无法退款

客服诱导开通会员，会员开通发布招聘，按照要求建议刷新，十几天过去没有任何效果，收到11个简历，全部是虚假号码。没有一个可以通话的！后又应客服建议使用免费聊天资源，一样没有效果，能互动以及添加好友的，不是做微商为自己做广告的，就是宣传赌博的。现在半个月过去了，没有任何效果，还浪费人力。要求退款被拒绝...

More than ten days went by with no effect. We received 11 resumes, all of which had fake phone numbers. Not one could be reached!

Source: https://tousu.sina.com.cn/complaint/view/17349791765/

The same user followed up on their complaint, stating that of the 17 resumes they received, not one was from a real job seeker.


Additional complaint

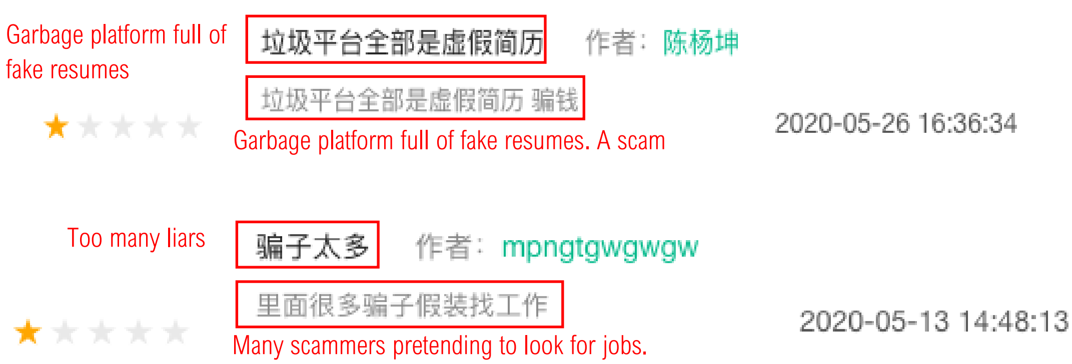
匿名 补充投诉 06-04 20:18:31

这个投诉速度还真是慢，几天没动静，还来说什么没强力要求退款？这个智联招聘平台到目前收到17个简历，没有一个是真实的求职者。这种平台不退何用？

So far, we received 17 resumes on Zhaopin's recruitment platform, none of which are from real job seekers.

Source: https://tousu.sina.com.cn/complaint/view/17349791765/

The same complaints can also be found on the company's app, Zhilian Zhaopin Enterprise Edition, which serves as a platform for enterprise hirers. The app is ridden with reviews from users complaining about fake resumes on the platform.


Garbage platform full of fake resumes

垃圾平台全部是虚假简历 作者：陈杨坤

垃圾平台全部是虚假简历 骗钱

Garbage platform full of fake resumes. A scam

2020-05-26 16:36:34

Too many liars

骗子太多 作者：mpngtgwgwgw

里面很多骗子假装找工作

Many scammers pretending to look for jobs.

2020-05-13 14:48:13

Source: https://www.qimai.cn/app/comment/appid/1268483731/country/cn

In June 2020, one employer posted a review complaining that the platform was completely useless, as all the resumes sent to them were fake. The user went on to say that they could not even chat with the job seekers.

★☆☆☆☆ Fake members

虚假会员 作者：上当受骗人员 This app is useless. All resumes provided are fake, can't even chat with them

下载智联体验几天以后就会有一个管家联系你让你办会员，而这个会员有的功能会跟你说，没有的功能说充值完会员以后也会有，当我充了1980的会员以后，这个软件根本就没有用了，推送的简历全部都是假的，聊天也聊不了，这个管家在之前通话的承诺根本就是骗人的，而我打电话联系客服两次，每次都说在48小时以内就会有领导给我打电话说解决这个事，两次都没有回复，奉劝大家千万不要用这个软件，根本就是个骗子

2020-06-17 19:47:03

Source: https://www.qimai.cn/app/comment/appid/1268483731/country/cn

In March 2020, another review considered Zhaopin to be the worst recruiting platform. The employer says that after using the platform for almost a year, they have not hired a single person because of all the zombie resumes on the site. The user even paid to contact the alleged job seekers but received no response.

★☆☆☆☆

The worst recruitment website!

没貔貅有用比貔貅还狠的垃圾招聘网站！ 作者：袁泓

Just discovered the good reviews are all fake and created by the company to deceive people.

才发现那些好评都是假的他们自己刷出来骗人的！因为听说这个网站名气大，注册了后作为企业账户充值了2000块，服务客服么三天两头打电话来骗钱让我们买各种乱七八糟的道具。花钱了又没效果的，注册了快一年了一个人都没招到过，里面都是僵尸简历，花了钱去沟通那些上面的求职者都没反应的！现在心灰意冷想把自己当初充值剩下的钱退回他们竟然说公司规定不退款！这是哪门子霸王条款。自己的钱充了不用不能退？满一年后不用就自动消失了？客服非常狂，反复强调不管法律怎么规定他们公司就是规定钱不能退！呵呵。有没有王法了！希望有关部门来管管这些无能又恶霸的公司。我也在这里提醒一下要注册的朋友们慎用！真的没用。骗人的！

2020-03-18 09:17:51

I registered for almost a year. I wasn't able to hire anyone. The site is full of zombie resumes.

I paid to contact those job seekers. None of them responded.

Source: https://www.qimai.cn/app/comment/appid/1268483731/country/cn

These complaints corroborate the whistleblower allegations that Zhaopin's platform is inundated with fake resumes, presumably paid for and orchestrated by Zhaopin.

Together with evidence of fake job postings, allegations of widespread fake resumes are likely to have a compounding effect on the already declining popularity of the platform. The more fake resumes on the site, the fewer employers will pay to post. The fewer real employers, the more fake posts will appear to lure candidates, further driving away job seekers. This will require even more fake resumes, creating a vicious downward spiral.

Not only does this suggest that Zhaopin has been misrepresenting the activity on its platform to investors, it also bodes ill for the future. Zhaopin is supposedly the Company's growth engine that will enable Seek to continue to service its increasingly toxic levels of debt. Employers will likely become increasingly disenchanted with the platform as they encounter fewer and fewer real candidates. We highly doubt that employers will continue to pay for a service inundated with fake resumes, which directly undermines the already tenuous bull case for investing in Seek.

ZHAOPIN INUNDATED WITH FAKE POSTS

To vet the main Zhaopin platform, we designed an algorithm to scrape the website to determine which companies posted for the most job openings. We then analyzed the results for three, randomly selected, major cities in China. Zhaopin claims to be strongest in top tier cities, so we sampled cities from these categories.

Our algorithm found 158,121 posts by 30,463 companies. Because the sheer volume makes it impossible to diligence all the posts, so we sorted the database and vetted the top 100 companies in each city with the most job postings.

These are the postings which job seekers are most likely to encounter, as the top 100 companies accounted for a disproportionate number of the job posts for these cities.

City	# of Posts from Top100	Total Posts Scraped	%
Dalian	8,534	29,536	29%
Xi'an	13,080	66,009	20%
Qingdao	8,849	62,576	14%
Total	**30,463**	**158,121**	**19%**

Source: Job Posts Scraped from Zhaopin

Through our analytics, we found thousands of postings from many of the top companies which appear, in our view, to be clearly fake.

Many of the postings from the top 100 in these three cities were from companies which were deregistered or whose operations were labelled "abnormal" by China authorities. We also found hundreds posts from companies with no website or WeChat account – many of these businesses were simply uncontactable. In other instances, Zhaopin's users identified the posts as fake. In another case, **the employer denied ever posting for positions on Zhaopin** and **told us the posts were fraudulent**.

The platform appears inundated with fake posts, which has two implications for investors. First, since the fake posts are supposedly posted by Zhaopin's customers, we question the authenticity of Zhaopin's reported revenues. Second, our study indicates a level of rot on the platform which explains not only Zhaopin's declining popularity but suggests that the popularity of the platform will continue to plummet. After all, why would a job seeker bother with a platform with so many fake posts?

1. **Dalian**

Dalian is a Tier Two city, where Zhaopin claims to be well represented. Our algorithm found 29,536 unique posts from 5,117 companies. The top 100 companies accounted for **29% of the posts on Zhaopin** for Dalian, meaning these are the posts that job seekers are most likely to encounter on the platform.

After close examination, we found many of the postings from the top 100 companies in Dalian appear to be simply fake. These posts were from companies which were deregistered, whose operations were labelled "abnormal" by Chinese authorities or had reviews on Zhaopin in which users alerted others that the positions were fake.

Rank	Company Name	# of posts in Dalian	Zhaopin Source	No. of Employees	Reason for Suspicion
2	北京融汇天诚投资管理有限公司 Beijing Ronghui Tiancheng Investment Management Co., Ltd.	301	Link	3	**Abnormal Operations** on QCC since August 2020, multiple reviews said it is a scam
15	大连恒丰广益信息咨询服务有限公司 Dalian Hengfeng Guangyi Information Consulting Service Co., Ltd.	95	Link	0	Applied to **deregister** in October 2019, Reviews on Zhaopin say the positions are **fake**

16	大连中北观光国际旅行社有限公司 Dalian Zhongbei Tourism International Travel Service Co., Ltd.	94	Link	3	Reviews on Zhaopin say the positions are <u>**fake**</u>, no website or WeChat
23	大连昌盛堂商贸有限公司 Dalian Changshengtang Trading Company	75	Link	0	**Abnormal Operations** on QCC since August 2018, claims to be in tourism industry on Zhaopin
26	大连佳彩科技有限公司 Dalian Jiacai Technology Co., Ltd.	74	Link	0	Reviews on Zhaopin say the positions are <u>**fake**</u>
38	大连安泰易家房地产顾问有限公司 Dalian Antai Yijia Real Estate Consulting Co., Ltd.	63	Link	0	Reviews on Zhaopin say the positions are <u>**fake**</u>
52	大连睿文科技有限公司 Dalian Ruiwen Technology Co., Ltd.	52	Link	N/A	Incorporated in April 2020, no website or WeChat Hiring 10 yoga instructors
73	大连和熙文化传播有限公司 Dalian Hexi Culture Communication Co., Ltd.	43	Link	0	No website or WeChat, reviews on Zhaopin say the positions are <u>**fake**</u>
75	如此生活(大连)信息技术有限公司 Live Like This (Dalian) Information Technology Co., Ltd.	43	Link	0	**Deregistered**, reviews on Zhaopin suspect the positions are <u>**fake**</u>
88	大连易鲜贸易有限公司 Dalian Yixian Trading Co., Ltd.	39	Link	0	Reviews on Zhaopin say the positions are <u>**fake**</u>, no website or WeChat
92	大连正邦新能源材料有限公司 Dalian Zhengbang New Energy Materials Co., Ltd.	38	Link	0	Reviews on Zhaopin say the positions are <u>**fake**</u>

Source: Zhaopin, WeChat and QCC

Note: PRC entities are required by law to pay mandatory social insurance for each PRC employee. We use this as our basis for number of employees.

a. Deregistered Entities

Two of the most frequent job posters in the top 100 were deregistered or in the process of deregistration entities, which we believe is compelling evidence that such posts are fake. Live Like This (Dalian) Information Technology Co., Ltd. ("<u>LLT Dalian</u>"), has posts for 51 job openings in Dalian. [10]

Source: LLT Dalian Zhaopin Page

Yet according to Chinese company database, **LLT Dalian has been deregistered since July 14, 2020**.

[10] The number of hiring positions listed on companies' Zhaopin page is the total number of their postings across all cities, which fluctuates daily.

Source: *https://www.qcc.com/firm/2af45f096d0f8283fc86bc754e701d90.html*

We tried to contact LLT Dalian at its registered phone number multiple times, but no one answered.[11]

Another top 100 company, Dalian Hengfeng Guangyi Information Consulting Service Co., Ltd. ("Dalian Hengfeng") was ranked #15 in Dalian by number of postings and claimed to be recruiting for 99 positions.

However, according to Chinese company database, Dalian Henfeng notified Chinese authorities that it applied for **deregistration on October 22, 2019**.

Source: *https://www.qcc.com/risk?obj=1&unique=3cba2212fbb7fa3942fc278adba643ae&property=1*

When we called the deregistered company to inquire about their job posts on Zhaopin, they seemed confused. Although Dalian Henfeng admitted that they had posted an opening on Zhaopin a long time ago, they denied any current postings, let alone a post in October 2020.[12]

Deregistered companies, or companies in the process of deregistration, are unlikely to be hiring. We think the obvious conclusion is that such postings are fake.

b. "Abnormal Operations"

From our survey of the platform, Beijing Ronghui Tiancheng Investment Management Co., Ltd. ("Beijing Ronghui") ranked 2nd in terms of the largest number of job postings in the city, claiming to have 359 open positions.

Source: *[Beijing Ronghui Zhaopin page]()*

[11] We also tried the phone number listed on the website provided by QCC and got the same result.
[12] Many of its posts were updated on October 22, 2020

However, Beijing Ronghui has recently been flagged with **abnormal operations** by the local State Administration for Industry and Commerce. This is an unusual designation by Chinese authorities meaning the business filed false or misleading disclosures, is uncontactable or is not in compliance with PRC requirements.

Source: https://www.qcc.com/firm/6e927fe36df5e76edc38b6d709182945.html#fengxian

Furthermore, like many other frequent job posters we identified, Beijing Ronghui has no website that we could find. Beijing Ronghui claims to be hiring for 359 positions on Zhaopin's platform. But designation as "abnormal" by PRC regulators and online reviews of the company suggest that these posts are **fake**.

c. Users Identified Fake Posts

Another top 100 company, ranked by the number of postings, was Dalian Antai Yijia Real Estate Consulting Co., Ltd. ("Dalian Antai"), which claimed to have 70 job openings.

Source: Dalian Antai Zhaopin Page

However, Dalian Antai's registered capital is only RMB 30,000, which is far too small to realistically pay RMB 2,000 to RMB 15,000 per month across 70 open positions.

Source: https://www.qcc.com/firm/e455a65908e9efe469014a5b02d1e102.html

Users claim that these posts are fake. One Zhaopin user commented that Dalian Antai was not a real estate consulting company, rather an insurance company. Another user also suggested that the posts were misleading and likely fake, surmising that Dalian Antai was just an insurance company trying to trick users into providing their personal information.

Source: Zhaopin User's Review

d. No Online Presence and Uncontactable

There were over a dozen companies from the top 100 in Dalian that were highly suspicious as they had no website, no WeChat account, were hiring for non-related positions, or were restricted from high spending under Chinese law due to the high levels of indebtedness.

To verify the authenticity of these job posts, we called these companies and asked about the open position we saw on Zhaopin. **Of 13 companies, only three answered.** One company clearly **stated that they had never been hiring and were baffled as to why they would appear on Zhaopin.**

For example, one of the Dalian top 100 was Dalian Jiezhifeng Technology Development Co., Ltd. ("Dalian Jiezhifeng"), which had 36 job openings listed on Zhaopin.

When we asked Dalian Jiezhifeng about an opening on Zhaopin they replied, "we are not interested, and we are not hiring." We then asked that if they were not hiring, why were there postings for open positions on Zhaopin? The person we spoke with replied, **"I have no idea! Probably somebody fraudulently using our information, we are not hiring and have never been interested in hiring."** Dalian Jiezhifeng's response unambiguously confirms that the job postings under its name are fake.

Rank	Company Name	# of posts in Dalian	Zhaopin Source	No. of Employees	Reason for Suspicion	Results of Contact
8	大连晶和信科技有限公司 Dalian Jinghexin Technology Co., Ltd.	133	Link	0	No website or WeChat	Phone number provided on QCC is wrong
39	大连泰微科技有限公司 Dalian Taiwei Technology Co., Ltd.	63	Link	0	Falsely claims to be a public company on Zhaopin, no website or WeChat	Called multiple times with no answer
42	大连菲尼科思科技发展有限公司 Dalian Finikesi Technology Development Co., Ltd.	61	Link	3	No website or WeChat, a chemical product wholesaler but hiring 5 security analysts	Number provided on QCC is wrong
43	大连明诚科技有限公司 Dalian Mingcheng Technology Co., Ltd.	60	Link	0	No website or WeChat, In IT industry but hiring 4 financial product managers	Called multiple times with no answer
48	大连星魅传媒有限公司 Dalian Xingmei Media Co., Ltd.	56	Link	N/A	No website or WeChat, Hiring 3 electrical automation engineers	Called multiple times with no answer
50	大连凌波微联科技有限公司 Dalian Lingbo Microlink Technology Co., Ltd.	53	Link	1	Only an outdated website	The number on its website is invalid

						Called registered phone number multiple times with no answer
57	大连振翔贸易有限公司 Dalian Zhenxiang Trading Co., Ltd.	49	Link	0	No website or WeChat	Called multiple times with no answer
63	紫藤设备工程(大连)有限公司 Wisteria Equipment Engineering (Dalian) Co., Ltd.	46	Link	0	No website or WeChat	Called multiple times with no answer
69	大连丰泽商贸有限公司 Dalian Fengze Trading Company	44	Link	0	Hiring for non-related positions: industrial painter, medical manager	Called multiple times with no answer
79	大连煊阁建筑装饰工程有限公司 Dalian Xuange Building Decoration Engineering Co., Ltd.	42	Link	0	Incorrect company information on Zhaopin, No website or WeChat	Called multiple times with no answer
84	大连两人房地产经纪有限公司 Dalian Liangren Real Estate Agency Co., Ltd.	40	Link	N/A	No website or WeChat	Uncontactable, no website, WeChat or phone number
87	大连大盛广告有限公司 Dalian Dasheng Advertising Co., Ltd.	39	Link	0	No website or WeChat	Called multiple times with no answer
98	大连捷之丰科技发展有限公司 Dalian Jiezhifeng Technology Development Co., Ltd.	36	Link	1	No website or WeChat	Confirmed posts on Zhaopin were fake

Source: Zhaopin, WeChat and QCC

We would expect that every recruiting platform would have some job postings from disreputable employers. And we anticipate that Seek's response will be that certain posters are a few bad apples who are unrepresentative of most companies posting on the platform.

But fake posts do not appear to be isolated problem. Rather, they appear to be endemic. **Our review of the Dalian posts indicates that many of the top 100 most frequent job posters appear to be fake**. Recall that posts from these top 100 companies account for 29% of the job posts for Dalian on Zhaopin, meaning that job seekers are much more likely to encounter the fake posts from these companies.

2. Xi'an

We also analyzed Xi'an, a new Tier One city. Our algorithm found 66,009 posts from 12,838 companies. Here, posts from the top 100 companies accounted for 20% of the posts on Zhaopin for this city.

Similar to Dalian, many postings from the top 100 in Xi'an appear to be fabricated. These companies were in the process of deregistration, operations were labelled "abnormal" by Chinese authorities, or were recently registered companies with no website, WeChat account or telephone number.

Other than the one company which Zhaopin users already flagged as a scam, we tried to contact 19 companies by calling the phone number listed on their regulatory filings or website, if any. Yet, 12 companies were uncontactable as they either did not provide a correct phone number or any phone number at all. Of the remaining seven companies, only five answered. Three companies immediately hung up after inquiry about the company. One immediately hung up after inquiry about job openings. One company said it was not hiring and quickly hung up.

Rank	Company Name	# of posts in Xi'an	Zhaopin Source	No. of Employees	Reason for Suspicion	Results of Contact
29	成都叁瑜科技有限公司 Chengdu Sanyu Technology Co., Ltd.	100	Link	N/A	Incorporated in April 2020, no website or WeChat	Uncontactable, no website, WeChat or telephone number

30	重庆道伦投资管理有限公司 Chongqing Daolun Investment Management Co., Ltd.	100	Link	0 (2017)	**Abnormal Operations** on QCC since Sep. 2019, no 2018 or 2019 filings	Hung up after inquiry about the company
31	陕西奇异果餐饮管理有限公司 Shaanxi Kiwi Catering Management Co., Ltd.	100	Link	0	No website or WeChat, mentions another company in its description on Zhaopin that does not exist	Phone number provided on QCC does not exist
32	陕西方和保安服务有限公司 Shaanxi Fanghe Security Service Co., Ltd.	97	Link	0	No website or WeChat	Hung up after inquiry about the company
36	咸阳玖玖六商贸有限公司 Xianyang Jiujiu Six Trading Company	90	Link	N/A	Incorporated in April 2020, no website or WeChat	Uncontactable, no website, WeChat or telephone number
42	四川二十一度科技有限公司 Sichuan 21 Degree Technology Co., Ltd.	84	Link	0	No website, hiring Hotel front desk customer service butler	Called multiple times with no answer
48	北京明辰文化传媒有限公司 Beijing Ming Chen Culture Media Co., Ltd.	81	Link	3	No website or WeChat	Hung up after inquiry about the company
50	陕西博盛德信息科技发展有限公司 Shaanxi Boshengde Information Technology Development Co., Ltd.	80	Link	N/A	Incorporated in April 2020, in process of **deregistration**, website listed on QCC does not work	Uncontactable, no website, WeChat or telephone number
52	绵阳市捷翼商贸有限公司 Jieyi Trading Company	78	Link	N/A	Incorporated in January 2020, no website or WeChat	Uncontactable, no website, WeChat or telephone number
55	陕西苏康盈融互联网科技有限公司 Shaanxi Sukang Yingrong Internet Technology Co., Ltd.	77	Link	N/A	No website or WeChat	Uncontactable, no website, WeChat or telephone number
56	盛世国际商业保理有限公司 Shengshi International Commercial Factoring Co., Ltd.	76	Link	N/A	**Abnormal Operations** on QCC, no 2017 - 2019 filings	Phone number provided on QCC is not in service
57	栾川县菲雪尔商贸有限公司 Luanchuan County Fisher Trading Company	75	Link	0	No website or WeChat	Hung up after inquiry about job openings
59	平遥众鹏网络科技有限公司 Pingyao Zhongpeng Network Technology Co., Ltd.	73	Link	N/A	**Abnormal Operations** on QCC	Uncontactable, no website, WeChat or telephone number
60	达州市凤凰云商贸有限公司 Dazhou City Phoenix Cloud Trading Company	73	Link	N/A	No website or WeChat	Uncontactable, no website, WeChat or telephone number
61	吕梁久益商贸有限公司 Luliang Jiuyi Trading Company	72	Link	0	No website or WeChat	Calls could not be completed
67	武汉市一鸣飞人文化传媒有限公司 Wuhan Yiming Feiren Culture Media Co., Ltd.	69	Link	0	No website or WeChat, Hiring English teachers	Called multiple times with no answer
73	西安泉坤教育科技有限公司 Xi'an Quankun Education Technology Co., Ltd.	67	Link	0	No website or WeChat	When asked about its job posts on Zhaopin, it said it is not hiring
76	武汉鑫都成商贸有限公司 Wuhan Xinducheng Trading Company	66	Link	0	Reviews on Zhaopin say the company is a scam	-
83	汉中市金禾文化传媒有限公司 Jinhe Culture Media Co., Ltd.	64	Link	N/A	Incorporated in May 2020, no website or WeChat	Uncontactable, no website, WeChat or telephone number

91	陕西鑫壹付信息科技有限公司 Shaanxi Xinyifu Information Technology Co., Ltd.	59	Link	N/A	Incorporated in April 2020, no website or WeChat	Uncontactable, no website, WeChat or telephone number

Source: Zhaopin, WeChat and QCC

3. Qingdao

We also analyzed Qingdao, a new Tier One city. Our algorithm found 62,576 posts from 12,278 companies.

Similar to Dalian, many postings from the top 100 in Qingdao appear to be fabricated or highly suspicious. These companies were either deregistered or recently registered companies with no website, WeChat account or telephone number.

In the Qingdao top 100, we also found a number of tiny companies with 1 or 2 employees which posted for hundreds of open positions unrelated to their core business. For example, Qingdao Zhongsong Culture Communication Co., Ltd. was the 35th largest employer by postings in the city. Even though it has only 2 employees, it had 76 posts for hundreds of positions, including an opening for an electrician in Shanxi, a province hundreds of miles away.

We called these highly suspicious companies in Qingdao to verify whether they were hiring. We contacted these 13 companies by calling the phone number listed on their regulatory filings or website, if any. Yet, eight companies were uncontactable as they either did not provide a correct phone number or any phone number at all. Of the remaining 5 companies, only two answered. One immediately hung up after inquiry about job openings. Another company immediately hung up after inquiry about the company. It is highly unlikely that a business looking to expand its operations would just hang up on job seekers without any response.

Rank	Company Name	# of posts in Qingdao	Zhaopin Source	No. of Employees	Reason for Suspicion	Results of Contact
29	青岛创易共享信息服务有限公司 Qingdao Chuangyi Sharing Information Service Co., Ltd.	81	Link	3	Registered capital too small to hire 81 people. Website can't be reached. Strange opening: a HR consulting firm hiring calligraphy teacher	Called multiple times with no answer
30	青岛讯博网络技术有限公司 Qingdao Xunbo Network Technology Co., Ltd.	80	Link	N/A	Incorporated in May 2020, no website or WeChat	Uncontactable, no website, WeChat or telephone number
34	青岛才库企业管理咨询有限公司 Qingdao Caiku Enterprise Management Consulting Co., Ltd.	78	Link	10	No website or WeChat	Phone number provided on QCC belongs to former employee
35	青岛中颂文化传播有限公司 Qingdao Zhongsong Culture Communication Co., Ltd.	76	Link	2	Registered capital too small to hire 76 people. Strange openings: an advertising company hiring electricians in Shanxi	Number provided on QCC is wrong
36	青岛润合兴业信息技术有限公司 Qingdao Runhe Industrial Information Technology Co., Ltd.	76	Link	1	False claims to be 2019 National Cultural Export Key Enterprise and an AI company	Hung up after inquiry about the company
41	山东众鑫财税服务有限公司 Shandong Zhongxin Finance and Taxation Service Co., Ltd.	71	Link	N/A	Strange openings: a financial services company hiring multiple AC technicians in a different province	Uncontactable, no website, WeChat or telephone number

45	青岛威肯电子有限公司 Qingdao Viken Electronics Co., Ltd.	68	Link	0	Strange openings: an electronics company hiring credit card debt reminder specialist	Called multiple times with no answer
56	青岛良才企业咨询管理有限公司 Qingdao Liangcai Enterprise Consulting Management Co., Ltd.	62	Link	N/A	Incorporated in July 2019, no info on QCC	Uncontactable, no website, WeChat or telephone number
66	青岛青软锐芯电子科技有限公司 Qingdao Qingruan Ruixin Electronic Technology Co., Ltd.	59	Link	0	Strange openings: an electronics company hiring for a government hotline receptionist	Hung up after inquiry about job openings
67	山东昱蒙广告有限公司 Shandong Yumeng Advertising Co., Ltd.	58	Link	0	No website or WeChat	Number provided on QCC is wrong
78	北京中博宏昌建设工程有限公司 Beijing Zhongbo Hongchang Construction Engineering Co., Ltd.	54	Link	N/A	Incorporated in March 2020, no online presence or WeChat	Uncontactable, no website, WeChat or telephone number
81	驿路星辰(北京)科技有限公司 Yilu Xingchen (Beijing) Technology Co., Ltd.	54	Link	N/A	Bankrupted. Under-reorganization, no 2019 filings	Called multiple times with no answer
91	青岛海铭博大数据信息服务外包中心 Qingdao Haimingbo Big Data Information Service Outsourcing Center	50	Link	N/A	Incorporated in December 2019, no info on QCC	Uncontactable, no website, WeChat or telephone number

Source: Zhaopin, WeChat and QCC

The sheer volume of posts makes examining each one impossible, so our review focused on the top 100 employers in each city we analyzed. These companies accounted for a disproportionate number of posts in these cities and were the ones that job seekers would be most likely to encounter.

In our opinion, the main Zhaopin platform is inundated with fake posts.

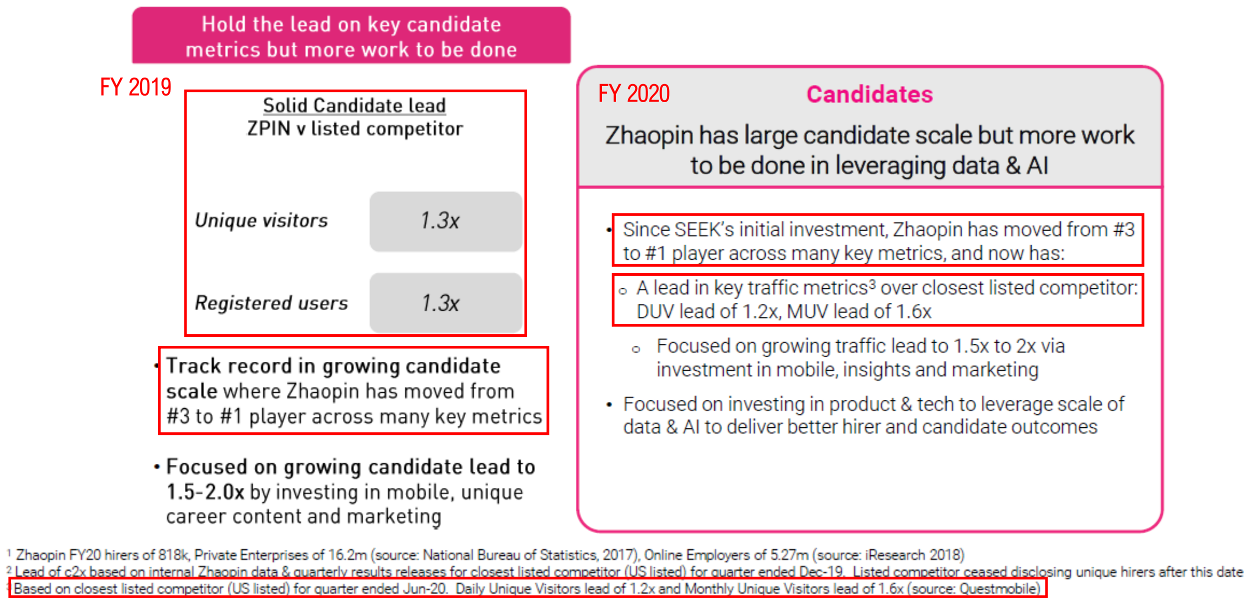
This has two implication for investors. First, we doubt that companies are paying for fake posts. Given the volume of fake posts, we posit that Zhaopin has been overstating its metrics and financial performance.

Second, our study indicates a level of rot on the platform which explains not only Zhaopin's declining popularity but suggests that the popularity of the platform will continue to plummet. After all, why would a job seeker bother with a platform with so many fake posts? It is therefore no surprise that evidence has emerged that Zhaopin needs to pay for fake resumes to populate the platform.

SEEK MISREPRESENTS ZHAOPIN AS THE #1 PLATFORM IN CHINA

Seek claims Zhaopin is the number one employment platform in China and that its traffic is much higher than its closest US-listed peer, 51job. Yet we reviewed the QuestMobile data quoted by Seek and it shows otherwise—not only is Zhaopin's popularity roughly the same as 51job's, but Zhaopin has been losing its leading position to BOSS Zhipin ("BOSS") since August 2019. By August 2020, BOSS had 60% more monthly active users than Zhaopin.

Seek claims, based on independent data from QuestMobile, that Zhaopin is the "#1 player" in China and that the platform is substantially more popular across many key metrics than 51job. For example, Seek claimed that Zhaopin had 30% more monthly active users than 51job in FY 2019, and that Zhaopin had 60% more monthly active users than 51job during the quarter ended June 2020.



Source: Seek FY 2019 and FY 2020 Annual Presentation

To verify Seek's claims, we reviewed monthly and daily active user data from QuestMobile, the independent data provider in China cited by Seek. The data shows that this claim is bogus.

First, rather than showing a clear lead, the QuestMobile data showed that Zhaopin had a similar number of monthly active users as 51job over the last three years. The data also indicated that rather than having a 60% lead in monthly active users over 51job in Q4, Zhaopin's edge was much more modest.

	Monthly Active Users			
'000	FY 2018	FY2019	FY 2020	Q4 FY20
Zhaopin	8,155	10,062	11,642	14,121
51job	7,814	9,262	10,450	11,810
Difference	**4%**	**9%**	**11%**	**20%**

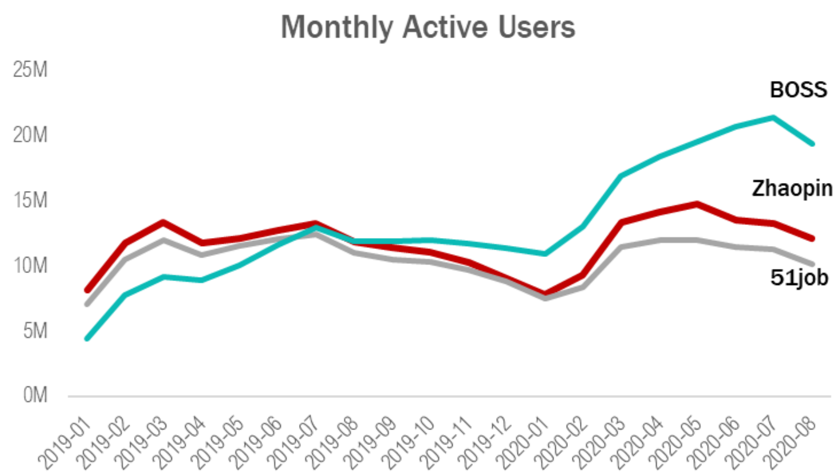
Source: QuestMobile Data

More importantly, the QuestMobile data shows that Zhaopin is not the leading recruiting platform in China. BOSS, another employment service provider, has replaced Zhaopin as the most popular recruiting app in China, and BOSS's relative lead over Zhaopin has only widened since August 2019.

Monthly Active Users Comparison

	Monthly Active Users			
'000	FY 2018	FY2019	FY 2020	Q4 FY20
BOSS	3,035	6,605	14,262	19,528
Zhaopin	8,155	10,062	11,642	14,121

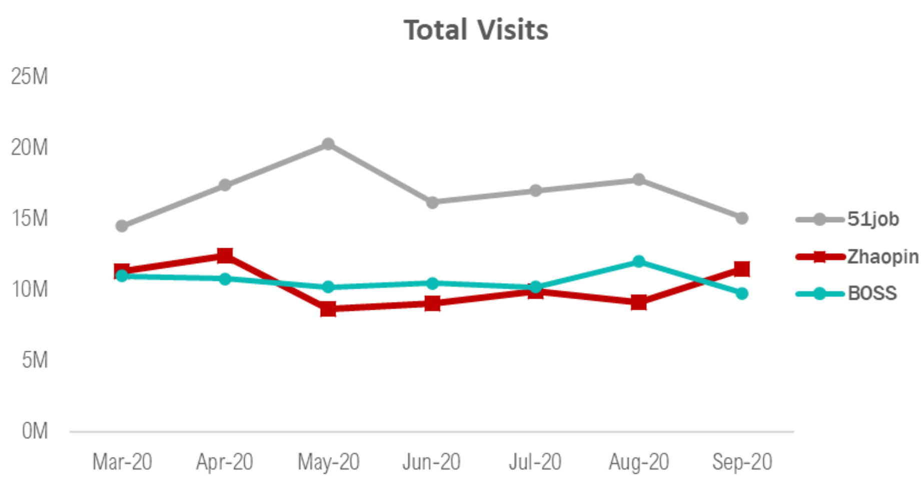
Source: QuestMobile



Source: QuestMobile

Zhaopin and 51job are far behind BOSS when comparing monthly active users.

Website traffic also shows Zhaopin behind. SimilarWeb data indicates that, in the past seven months, Zhaopin's total visits are 39% less than 51job's. In fact, Zhaopin's traffic statistics are consistently worse than 51job.



Source: https://www.similarweb.com/

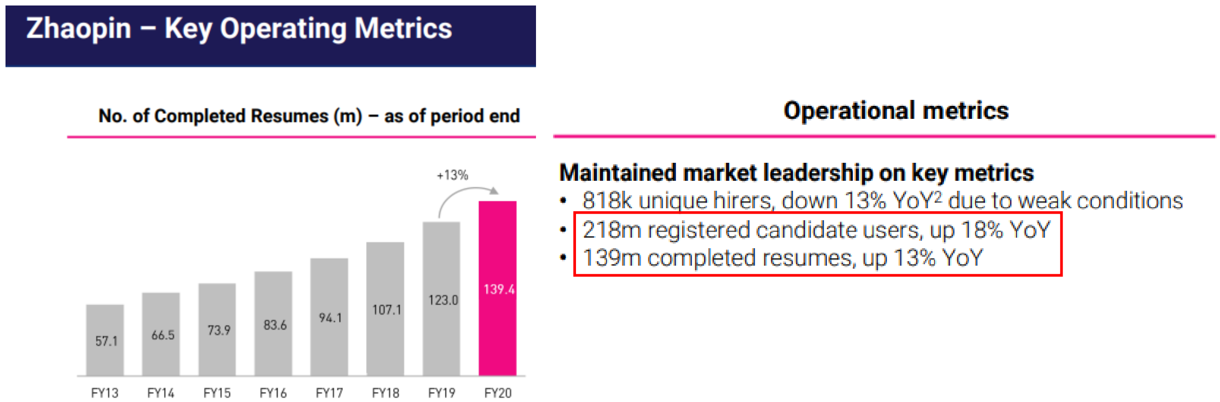
The traffic data from independent service providers suggests that Seek's portrayal of Zhaopin as the industry leader is highly misleading.

The data shows that Zhaopin is far behind the leading platform (BOSS). Rather than showing a clear lead over 51job, the data shows both are struggling with falling popularity. Given that 51job announced that it laid off 127 employees and closed 11 offices in 2020, we would expect Zhaopin to be similarly struggling.

- **1 in 4 of China's Workforce on Zhaopin?**

This is not the only claim regarding Zhaopin's platform which deserves scrutiny. In its FY 2020 results presentation, the Company claimed that Zhaopin had 139 million completed resumes and 218 million registered candidate users.

The Company claimed that both user metrics experienced impressive growth, with registered candidates up 18% YoY and completed resumes up 13% YoY. Such growth is particularly important to investors when Seek's other businesses are reporting declining revenues.



Source: FY 2020 Results Presentation

Yet a basic back of the envelope calculation suggests that such metrics are highly questionable. Out of a population of 1.4 billion, China reported a total labor force of only 806 million in 2018, which refers to the population aged 16 and over capable of working.

Out of a labor force of 806 million, Zhaopin claimed 218 million registered users. For Zhaopin's reported user metrics to be true, 1 in 4 Chinese workers must be a registered user of Zhaopin.

But this market share is absurd. The notion that 1 in 4 workers aged 16 and over is either looking for a job or registered for an online recruiting platform, in any market, is simply not credible. Especially in China, where the World Bank reports that 25% of the labor force is still employed in agriculture.

In our view, such reported user metrics do not pass the smell test. Notably, there are whistleblower allegations, supported by the complaints of employers, suggesting that Zhaopin is paying for fake resumes. This would not be necessary if 1 in 4 Chinese labor force participants used the platform.

Rather, our due diligence shows that in contradiction to Seek's claims, Zhaopin is a struggling platform.

PROFITS INFLATED BY QUESTIONABLE NON-CASH GAINS AND AGGRESSIVE ACCOUNTING

Seek has historically paid a dividend, giving the false impression that its business produces healthy profits and cash flows.[13] However, if investors look closer, Seek's dividend payments have been largely financed by the Company's rising indebtedness. Today, Seek's Net Debt-to-EBITDA has reached an alarming 3.2x. But the reality is far worse.

An examination of the quality of Seek's past earnings shows why such borrowings were necessary. Although the Company reported profits on paper, they were aided by dubious non-gash gains and questionable step-up transactions with related parties.

From FY 2015 to FY 2018, Seek reported cumulative fair value gains of AUD 336 million. Except for FY 2016, non-cash gains on investments made up 26-41% of Seek's annual profits.

AUD M	FY 2015	FY 2016	FY 2017	FY 2018
Fair value gain	100	0	177	59
Profit before taxes	384	557	437	173
% of non-cash gain	**26%**	**0%**	**41%**	**34%**

Source: Seek Annual Reports

1) Maimai: Suspicious Fair Value Gain in FY 2018

In FY 2018, Seek recognized AUD 59 million of fair value gain on financial assets, which was 34% of its reported profit before tax (AUD 173 million).

3. Other income

	Notes	2018 $m	2017 $m
Fair value gain on step acquisitions		-	177.3
Gain on disposal of equity accounted investments		1.9	-
Fair value gain on financial asset	11(iv)	58.8	-
Government grants *		2.2	1.2
Total other income		62.9	178.5

Source: FY 2018 Annual Report

According to Seek's announcement, this gain was derived from its investment in Maimai, a China-based career and social-networking platform.

Seek claimed that Zhaopin invested AUD 20 million (USD 15 million) in Maimai's series C round in November 2017 at a valuation of USD 250 million. Seek also claimed that it was able to recognize a fair value gain of AUD 59 million on this investment because Maimai's valuation purportedly increased 4x in 180 days.

The basis for this revised valuation is Seek's contention that in April 2018, Maimai completed a series D round of financing which valued the startup at USD 1 billion, supposedly making Maimai a newly minted unicorn.

Fair value gain on investment in Maimai

In its FY18 results, Zhaopin expects to recognise a non-cash fair value gain of A$59m (SEEK share A$36m) on its investment in Chinese career and professional networking platform, Maimai.

In November 2017, Zhaopin invested US$15m in redeemable preference shares in a Series C capital raise of US$50m at a Maimai valuation of US$250m, representing a 6% share. In April 2018, a series D capital raise of US$150m from existing and new investors occurred and this fair value gain reflects the mark to market gain at this new transaction value.

Given the private nature and sensitivity of competitive information, SEEK is limited as to the information it can share on Maimai.

Source: https://www.asx.com.au/asxpdf/20180806/pdf/43x32f69416vfd.pdf

[13] Seek categorized payments for step up acquisition under cash flows from financing activities. Over the past six years, cash paid for step up acquisitions and the Zhaopin privatization adds up to AUD 700 million.

Yet Seek's valuation timeline contradicts the statements of Maimai's CEO.

In an interview conducted by Tencent Tech at the time of Seek's initial investment (November 2017), Maimai's CEO stated unequivocally that Maimai was already valued at almost USD 1 billion, meaning Seek's massive upward revaluation of the investment was likely inappropriate.

11月15日，中国最大的实名制职场社交平台“脉脉”宣布完成C轮7500万美元融资。本轮融资由DCM领投，IDG资本、晨兴资本持续跟投，此外引入中国领先的职业发展平台智联招聘作为战略投资方。

On November 15 (2017), China's largest real-name professional networking platform, Maimai, announced that it completed series C of USD 75 million capital raising.

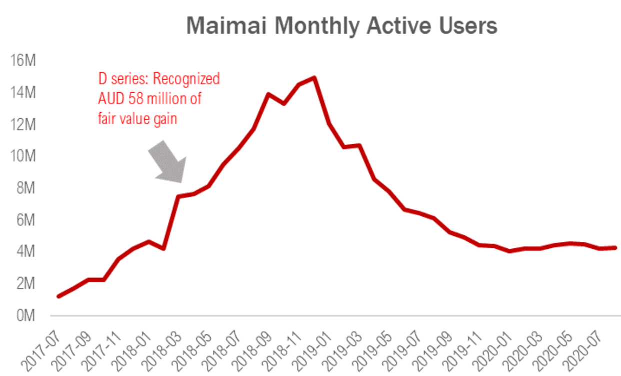
林凡对腾讯科技表示，本轮融资完成后，脉脉估值已经快接近10亿美元。“脉脉将自己与LinkedIn进行了对比，认为自己有希望在两年后IPO，并且实现百亿美金市值。”

Lin Fan (Maimai's CEO) told Tencent Tech that after the completion of this round of financing, Maimai's valuation has almost reached USD 1 billion.

Source: https://tech.qq.com/a/20171115/043497.htm

According to Maimai's CEO, its valuation was already close to USD 1 billion in November 2017 when Zhaopin invested in the startup. This directly contradicts Seek's claim that the startup was only valued at USD 250 million at the time and subsequently quadrupled in value to unicorn status. It was already there. In our opinion, Seek simply conjured 34% of its profit by inappropriately recognizing a non-cash gain on investment.

Further, we question why Seek did not impair the investment when Maimai's popularity appears to have plummeted. QuestMobile data shows that Maimai's monthly active users have crashed and are now below the level where Seek recognized fair value gain on this investment.



Source: QuestMobile Data

Not only do we believe that Seek inappropriately recognized a non-cash gain which constituted 34% of its net profits in FY 2018, but we believe Seek should now impair its investment given the plummeting popularity of the platform.

2) Step-up Acquisitions to Create Non-Cash Gains

Seek has also recognized non-cash gains from a particularly dubious accounting trick: step-up transactions.

Step-up transactions occur when a company owns a small fraction of a target's shares. The company then acquires more shares of the target at a higher price and recognizes a large non-cash gain on its initial investment. For example, when a company takes its ownership in an entity from 20% to 60%, it engages in a step-up transaction.

The problem is that a company acquiring the additional interest often has an incentive to **overpay for the second round of equity**. The reason is twofold. First, the company is often purchasing shares from related parties. Second, the higher the price the company pays for the additional equity, the larger the non-cash gain the company can recognize on its initial investment.

Many of Seek's non-cash gains, which in two of the past six years accounted for between 26-41% of its earnings, came from step-up transactions. Since Seek is the buyer, the Company has full discretion to inflate the price of its subsequent investments.

i. Online Education Services

For example, in FY 2017, Seek recognized an AUD 174 million gain on a step-up transaction when it acquired an additional 30% equity interest in Online Education Service ("OES"). This transaction is highly questionable and bears many of the hallmarks of aggressive accounting and dubious profits inherent in step-up transactions.

Initially, Seek invested only AUD 5 million for 50% of the shares of OES.

The strategic positioning and knowledge gained from operating SEEK Learning led to the genesis of Online Education Services (OES, formerly known as Swinburne Online) which is now a market leader in online adult education. The financial returns from OES have been strong where SEEK invested $5m in capital for a business that now earns sales revenue of $100m and EBITDA of $34m.

Source: Seek FY2017Annual Report

In March 2017, shortly before the end of Seek's fiscal year, it acquired an additional 30% of OES's equity, taking its interest in the startup to 80%. Because of the price it paid for the additional shares, Seek was able to recognize an AUD 174 million gain on its initial AUD 5 million investment, a **35x return**.

Online Education Services Ltd (OES)

On 31 March 2017 the Group, through its ultimate parent, SEEK Limited, completed a transaction with Swinburne University of Technology acquiring an additional 30% interest in OES, taking its ownership to 80% for a total consideration of A$119.6m. OES provides industry ready education qualifications online on behalf of education partners and the transaction will support OES' growth plans by giving the business greater flexibility to secure new education partners onto its online education platform.

(b) Fair value gain

In accordance with the accounting policy above, the Group has re-measured its previously held equity interest in OES at the acquisition date fair value immediately prior to the business combination.

SEEK has recognised a gain on the step acquisition of A$174.3m, being the difference between the acquisition-date fair value of its existing 50% ownership in OES (A$199.4m) and the carrying value of its investment in OES as an associate (A$25.1m) at 31 March 2017. This gain has been recognised in 'other income' in the consolidated income statement.

	Notes	OES $m
Fair value of pre-existing interest	20(a)	**199.4**
Less: carrying value of OES investment as an associate	22	**(25.1)**
Fair value gain on step acquisition	3	**174.3**

Source: Seek FY 2017Annual Report, p. 83

At the time of this step-up transaction, Seek chose to value OES at AUD 399 million. This valuation was mostly goodwill, as OES only had net identifiable assets of AUD 70.6 million at the time.

(c) Details of net assets and liabilities acquired:

Initial accounting

Given the acquisition occurred close to year end, both the net assets value and allocation of purchase price to acquired assets are still preliminary. The provisional acquisition balance sheet of OES comprises the following:

	Notes	Preliminary Fair value $m
Cash and cash equivalents		**48.6**
Trade and other receivables		**9.9**
Plant and equipment		**1.3**
Intangible assets		
Customer relationships	12	**30.3**
Computer software and website development	12	**2.6**
Deferred tax assets		**2.4**
Trade and other payables		**(10.8)**
Unearned income		**(1.0)**
Current tax liabilities		**(1.5)**
Non-current provisions		**(1.1)**
Contingent liabilities		**(1.0)**
Deferred tax liabilities		**(9.1)**
Net identifiable assets acquired		**70.6**
Add: goodwill	13(b)	**328.2**
Net assets acquired	20(a)	**398.8**

Source: Seek FY 2017Annual Report, p. 84

Prior to this step-up transaction, Seek treated OES as an associate under the equity method of accounting, meaning it only consolidated OES's profits in its financial statements. However, the step-up permitted Seek to fully consolidate OES, making it appear as though Seek grew revenues by AUD 100+ million that year.

The higher the valuation for OES in Seek's step-up investment, the larger the non-cash gain Seek could recognize in its financial statements on its initial investment.

Seek will likely argue that its valuation is justified given the performance of OES. But we question this argument, given that immediately following the step-up transaction, OES's financial performance started to decline significantly. Following the step-up transaction, OES's net margins began falling, bottoming out at 11% in FY 2020.

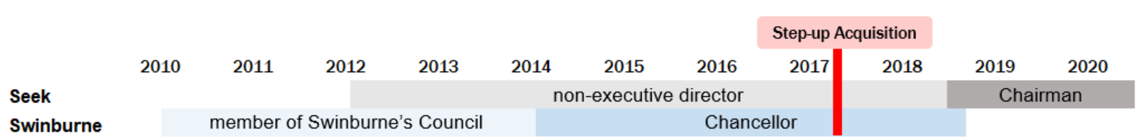
OES Financial Performance

AUD M	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenue	23	54	79	101	109	119	128	137
Net profit	5	14	20	24	24	21	19	16
Net margin	**20%**	**26%**	**26%**	**23%**	**22%**	**17%**	**15%**	**11%**

Source: Seek Annual Reports

We question whether it was simply a coincidence that OES's performance appears to have peaked right at the time Seek executed a step-up transaction, allowing it to recognize a dubious non-cash gain before fiscal year end. This deal enabled Seek to meet earnings and accounted for **<u>40% of Seek's consolidated profits that year</u>**.

It is also notable that Seek acquired the shares in this step-up from Swinburn University of Technology, whose chancellor at the time of the transaction, Graham Goldsmith, is also Seek's current chairman. [14]



Source: Seek Public Filings

Although Seek disclosed the conflict, it claimed that Graham Goldsmith could still be considered an independent non-executive director of the Company.

[14] Graham Goldsmith was Seek's non-executive director at the time of the step-up acquisition.

Mr Graham Goldsmith is Chancellor of Swinburne University of Technology ("Swinburne"). SEEK is in a joint venture with Swinburne in relation to Online Education Services ("OES") which operates the Swinburne Online business. Since March 2017, SEEK has held an 80% ownership interest in OES with the remaining 20% interest held by Swinburne. Having regard to the nature of SEEK's relationship with Swinburne and the materiality of OES to the SEEK Group, the Board concluded that Mr Goldsmith's position does not materially interfere with, and would not reasonably be perceived to materially interfere with, his capacity to exercise independent judgement in relation to issues before the Board or his ability to act in the best interests of SEEK and its security holders generally. Both SEEK and Swinburne have arrangements in place to manage any conflicts of interest, or perceived conflicts of interest, in relation to Graham's roles as Chancellor of Swinburne and Director of SEEK. Mr Goldsmith will retire as Chancellor of Swinburne with effect from 31 January 2019.

Source: Seek 2018 Corporate Governance Statement, p. 6

Given the underperformance and declining profits of OES since the transaction, we question Seek's decision to recognize a major non-cash gain on its initial investment at the moment that OES performance seemed to peak. That Seek's chairman was on both sides of the deal further undermines the credibility of Seek's reported gain.

MISLEADING EBITDA: APPLES-TO-ORANGES

Seek is usually compared to 51job, a US-listed operator of a Chinese online recruiting platform. But the comparisons mistakenly rely on Seek's reported EBITDA, which excludes significant capitalized software development costs and fails to back out minority interest.

For valuation, we believe it is appropriate to adjust Seek's EBITDA for both. This shows not only that the Company is significantly overvalued compared to other online recruiting platforms but also that it is dangerously over-levered.

a. Capitalized Software Development Costs

In FY 2020, Seek reported EBITDA of AUD 415 million, after adding back AUD 134 million of depreciation and amortization expenses. The Company incurred an average of AUD 95 million of annual software development costs over the past three years. Yet instead of expensing these costs in the current period, Seek capitalized them and is amortizing the costs over a 3 to 5-year period.

By comparison, 51job does not capitalize its R&D expenditures, despite supposedly having similar development costs. To operate and maintain its online recruiting platform, 51job has over 900 designers and software developers.

C. Research and Development, Patents and Licenses, Etc.

We employ a staff of over 900 website designers and software developers to design, update and create our websites, mobile applications and proprietary software. We intend to continue to upgrade our proprietary management systems, search engine methodology and information technology as we grow our business operations and keep up with evolving user needs and behavior. For more information on our

Source: 51job 2019 Annual Report

51job did not capitalize these costs, as the book value of its intangible assets stayed largely the same from 2018 to 2019.

8. INTANGIBLE ASSETS

Intangible assets and its related accumulated amortization as of December 31, 2018 and 2019 are as follows:

	2018 RMB	2019 RMB
Computer software	29,156	30,321
Acquired technology	60,251	60,251
Trade names	95,783	95,783
Customer relationships	12,270	12,270
Acquired program transmission license	119,728	119,728
Acquired training and other licenses	4,151	4,151
Less: Accumulated amortization	(76,893)	(119,342)
Net book value	244,446	203,162

Source: 51job 2019 Annual Report

Compare this to Seek, which capitalizes almost AUD 95 million of development costs per year. This is not the only example.

When Zhaopin was separately listed in the US, it did not capitalize development costs. Just like 51job, Zhaopin employed hundreds of developers to maintain and improve its platform.

C. Research and Development

As of August 31, 2016, our services were supported and enhanced by a team of 523 experienced and dedicated product development employees, including many with in-depth knowledge of information technologies and online recruitment. Our product development team is responsible for product innovation, user experience improvements, search engine optimization, recruitment website or web page design for customers and display advertisements. We have been able to develop innovative and effective products and services to meet the evolving needs of customers and users, and we plan to continue to strengthen our product development function.

Source: Zhaopin FY 2016 20-F

Yet its balance of intangible assets barely changed from FY 2015 to FY 2016.[15]

ZHAOPIN LIMITED

	As of June 30, 2015		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	RMB	RMB	RMB
Computer software	16,713	(13,816)	2,897
Acquired Internet Content Provider License	568	(568)	-
Trademarks	256	(196)	60
Customer relationship	1,000	(1,000)	-
Brand name	16,500	-	16,500
	35,037	(15,580)	19,457

	As of June 30, 2016		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
	RMB	RMB	RMB
Computer software	19,167	(16,354)	2,813
Acquired Internet Content Provider License	568	(568)	-
Acquired technology	554	(37)	517
Trademarks	256	(221)	35
Customer relationship	1,000	(1,000)	-
Brand name	16,500	-	16,500
	38,045	(18,180)	19,865

Source: Zhaopin FY 2016 20-F

It is notable that Seek is capitalizing software costs for Zhaopin whereas Zhaopin expensed those costs when it was a public company.

Seek will likely argue that capitalizing software costs is permitted under IFRS and therefore it is playing by the governing accounting rules. But that is not the point. Seek is commonly valued by comparing it to its peers, mainly US-listed 51job. Any discussion of Seek's stock price must therefore add back such expenses to Seek's income statement to make a proper apples-to-apples comparison.

By capitalizing software development costs that its peers expense, Seek appears more profitable on paper as such costs do not flow directly through the income statement. This allows Seek to paint an overly charitable picture of its financial health.

On paper, Seek claims to have grown reported EBITDA over the past five years. Yet after deducting the capitalized development costs, **Seek's EBITDA fell over the last five years**.

AUD M	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Reported EBITDA	367	362	431	455	415
Less: Capitalized Development Costs	(39)	(55)	(82)	(97)	(107)
Adjusted EBITDA	327	308	350	358	308
Adjusted EBITDA Growth		**-6%**	**14%**	**2%**	**-14%**

Source: Seek Annual Reports

We think two conclusions are appropriate. First, Seek should be valued by adjusting its income statement to reflect such software costs as expenses. Second, Seek's capitalized software costs should be deducted from EBITDA and should be considered when measuring Seek's debt levels.

b. Minority Interests

A big portion of Seek's revenue comes from its non-wholly owned businesses, principally Zhaopin. Yet when calculating its reported EBITDA, the Company includes 100% of the EBITDA from these investments as if they were wholly owned.

[15] FY 2016 20-F is the last 20-F Zhaopin filed. The RMB 2 million increase in computer software is not enough to account for 523 developers' salaries.

In FY2020, Seek reported that its EBITDA was AUD 415 million, of which Zhaopin contributed AUD 124 million.[16] As Seek only owns 61% of Zhaopin, only AUD 76 million of Zhaopin is attributable to Seek. In other words, AUD 48 million should be deducted from Seek's reported EBITDA.

AUD M	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Cumulative
Reported Zhaopin EBITDA	80	80	84	99	124	467
Seek's ownership of Zhaopin	62%	61%	61%	61%	61%	61%
Zhaopin's EBITDA belonging to minority interests	31	31	33	39	48	181

Source: Seek Annual Reports

After removing the impact of capitalized development costs and minority interest, Seek's EBITDA should be AUD 259 million in FY 2020, 37% less than reported.

AUD M	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	Cumulative
Reported EBITDA	367	362	431	455	415	2,030
Less: Capitalized Development Costs	(39)	(55)	(82)	(97)	(107)	(380)
Zhaopin's EBITDA belonging to minority interests	(31)	(31)	(33)	(39)	(48)	(181)
Adjusted EBITDA	297	276	317	319	259	1,469
Difference %	**-19%**	**-24%**	**-26%**	**-30%**	**-37%**	**-28%**

Source: Seek Annual Reports, Blue Orca Calculation

The adjusted EBITDA also raises serious concerns about Seek's leverage.

AUD M	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Reported Net Debt	229	241	937	1,217	1,336
Reported EBITDA	367	362	431	455	415
Reported net debt to EBITDA	**0.6** x	**0.7** x	**2.2** x	**2.7** x	**3.2** x
Adjusted Net Debt	377	425	859	1,105	1,250
Adjusted EBITDA	297	276	317	319	259
Adjusted net debt to EBITDA	**1.3** x	**1.5** x	**2.7** x	**3.5** x	**4.8** x

Source: Seek Annual Reports, Blue Orca Calculation
Note: Excluded Zhaopin minority interest portion of net debt

This calculation drives home how overvalued Seek is compared to peers, even before any of the evidence presented in this report is considered. 51 job is being taken private at 20.5x EV/EBITDA. After adjusting for capitalized software costs and minority interest, Seek's NTM EV/EBITDA multiple is actually 47x, and its real debt-to-EBITDA ratio is 4.8x. Without considering any other evidence, this shows that Seek's shares are grossly overvalued and that the Company is drowning in debt.

[16] Besides Zhaopin, Seek's other non-wholly owned investments includes OES and early stage ventures. The aggregate EBITDA of these investments is immaterial.

VALUATION

Seek is a roll-up of flat-growth online recruiting platforms and a supposedly fast-growing Chinese platform, Zhaopin, which Seek claims is the #1 player in China. We think this picture is false. Rather, our investigation suggests that Seek is a flat-growth Australian platform rolled up with a fading Chinese online recruiting platform besot by fake resumes and fake job postings.

Rather than valuing Seek as a fast-growing online recruiting platform, we value Seek for what it is—a slow-growth platform whose core business is shrinking and that carries a dangerous amount of debt.

To value Seek, we use a sum-of-the-parts methodology. We assign Seek's legacy Australian and non-China businesses a **generous** 20.5x EV/EBITDA multiple, the same multiple at which 51job is being taken private. However, we think Zhaopin is worth far less.

There is overwhelming evidence that Zhaopin is a fading platform inundated with fake job postings and fake resumes. This is likely to have a compounding effect on the already declining popularity of the platform. The more fake resumes on the site, the fewer employers will pay to post. The fewer real employers, the more fake posts will appear, further driving away job seekers. This will likely beget even more fake resumes, creating a vicious downward spiral.

Not only does our due diligence suggest that Zhaopin has been misrepresenting the activity on its platform to investors, we believe that the volume of fake resumes and posts requires at least a 30% discount on the valuation multiple of the Chinese platform.

Unlike 51job, Seek excludes development costs and minority interest in its reported EBITDA. To make the comparison flush, these two items should be deducted from EBITDA when valuing the Company. The two items contributed AUD 156 million to Seek's reported EBITDA in FY2020 and an estimated AUD 134 million in FY2021.[17]

AUD M	FY 2020	FY 2021E
Reported/Guided EBITDA	414.9	330.0
Capitalized Development Costs	(107.4)	(95.3)
Zhaopin's EBITDA belonging to minority interest	(48.1)	(38.3)
Adjusted EBITDA	**259.4**	**196.4**

Source: Seek Public Filings, Blue Orca Calculation

After adjusting for the estimated capitalized development costs and Zhaopin's minority interest, we estimate that Seek's NTM EBITDA will be AUD 196 million. We value Seek at AUD 7.20 per share, a 69% downside from its last traded price.

AUD M	AP&A, others	Zhaopin (61%)	Seek
Adjusted NTM EBITDA	136	60	196
EV/EBITDA Multiple	20.5 x	14.4 x	18.6 x
EV	2,798	864	3,662
Forecasted Net Debt FY2021	999	121	1,120
Adjusted Seek equity value	1,799	743	2,542
# of shares outstanding (M)			353
Blue Orca Valuation (AUD)			7.20
Last Traded Price (AUD)			22.86
Downside %			**-69%**

Source: Blue Orca Calculation
Note: Applied 30% of platform Obsolescence due to Fake Posts Discount to Zhaopin

[17] Used the average capitalized development costs for the past three years in our estimate. Assuming each segment's contribution to Seek's guided FY 2021 EBITDA remains the same, we estimate that Zhaopin's EBITDA would be AUD 98 million in FY 2021 and that only AUD 60 million would be attributable to the owners of Seek.

We consider this valuation to be very conservative. Seek's guidance for net profit after tax is AUD 20 million in FY 2021. Even if we generously apply a 100x NTM P/E multiple to its guided EPS, Seek's shares would be worth only AUD 5.67 per share.

Guidance	AUD
FY2021 NPAT (AUD M)	20
# of shares outstanding (M)	353
FY2021 EPS (AUD)	0.06
NTM P/E Multiple	**100 x**
Valuation	**5.67**

Source: Seek Public Filings, Blue Orca Calculation

In our opinion, Seek's shares are grossly mispriced. Nor should Covid-19 provide any cover. Seek's Chinese business should have already emerged from the worst effects of the virus in its last fiscal year (ending June 2020), as the virus had retreated by then in China. We have no doubt that Seek will blame the virus for its terrible results. But investors should not be fooled: our examination of its primary Chinese platform shows the rot preceded the pandemic.

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