



## Penetrating work group and SME reduces S&M

October 8, 2021

### INVESTMENT SUMMARY

- Kanzhun's (BZ) involvement of line managers into the hiring process is its key competitive advantage. The resulted enhancement in user stickiness can reduce sales and marketing (S&M) cost which is pivotal in driving Kanzhun's valuation;
- Marketing, however, played a pivotal role in BZ's rise, resulting in multiple rounds of venture investments and an oversized share count. We estimate BZ's fully diluted ADS count at 548mn, which makes BZ very expensive;
- We forecast BZ's EBIT margin at 19% at terminal year. Risks include: (1) anti-monopoly probe, (2) unpredictable technology breakthrough for efficiency enhancement, (3) low margin and worse working capital resulted from entering staffing and recruiting process outsourcing (RPO). We initiate with a HOLD and TP of US\$34.

### Research Team



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## Kanzhun Ltd. (NASDAQ: BZ)

### Margin key to valuation but so is share count

- Recent step-up in monetization is a healthy catchup of Kanzhun (BZ)'s traffic share. Yet we believe BZ's further increase in monetization and expansion to new markets will meet challenges;
- BZ's engagement of workgroup line management will increase usage frequency. Its recommendation information flow, chat-based interaction and item-based monetization will reduce S&M and drive margin expansion;
- We initiate the stock @HOLD with TP of US\$34 on valuation concerns.

### Recent step-up in monetization filled the traffic-revenue gap

According to Questmobile, mobile recruiting apps had a total MAU of 73mn in August, among which BZ's app BOSS ZHIPIN had 27mn, ~2x of competitor ZHAOPIN, ~3x of 51JOB and 4x of LIEPIN. We estimate BZ's 2021 revenue market share in online job seeking to be 29%, up from 18% in 2020 and 9% in 2019. BZ's revenue share is only catching up with its traffic share, in our opinion.

### We are optimistic on BZ to further expand its margins

We view BZ as a mobile-Internet native company that has a disruptive business model in the online job seeking market. Its direct engagement of workgroup managers increases the usage frequency of online recruiting and shall serve to lower the S&M cost to reacquire users and drive margins.

### We are less optimistic on BZ to succeed in new markets

We estimate online job seeking to have a market size of RMB15bn in 2021 and will double by 2024 and triple by 2026. We, however, are cautious on BZ's market share beyond 40% for anti-monopoly reasons. We see BZ penetrating both upmarket to online headhunting and down market into RPO/staffing to be significantly margin and working capital dilutive. As a result, we forecast BZ's 2030 gross margin at 53%, meaningfully below today's level of 85-90%.

### Share count is a drag to valuation...Technology can unlock it

BZ had 407mn ADS outstanding following its IPO, plus 69mn outstanding ADS options and 73mn issuable under share option plan. Globally SaaS and online job seeking names have lofty valuation. We believe the key is technology advancement to take over market from legacy players at decent profit margins.

### Summary financial data

Highlights	2019A	2020A	2021E	2022E	2023E
Revenues (RMB mn)	999	1,944	4,442	7,045	11,914
Non-GAAP operating profit (RMB mn)	(478)	(271)	674	1,387	2,053
Non-GAAP EPADS (RMB)	(8.73)	(4.83)	1.28	2.44	3.55
GAAP EADPS (RMB)	(9.37)	(16.94)	(2.16)	1.82	2.52
EBITDA margin	(46.0%)	(11.8%)	16.3%	20.9%	18.2%
P/E (non-GAAP)	(26)	(47)	179	94	64
Free cash flow yield (%)	(0.1%)	0.2%	1.9%	2.6%	3.9%

Source: Bloomberg, Blue Lotus (as of, 8 October, 2021)

BUY	<b>HOLD</b>	SELL
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<b>Target Price: US\$ 34</b>	<b>Current Price: US\$ 33.83</b>
RIC: (NASDAQ: BZ)	BBG: BZ US
Market cap (US\$ mn)	14,596.5
Average daily volume (US\$ mn)	48.38
Shares out (basic)/float (m)	338.6/NM

Source: Bloomberg, Blue Lotus (as of, 8 October, 2021)

### Key Changes

	New	Old	Diff
BLRI Recommendation	HOLD	-	-
BLRI Target Price	US\$34	-	-
2021E EPADS (RMB)	1.28	-	-
2022E EPADS (RMB)	2.44	-	-
2023E EPADS (RMB)	3.55	-	-

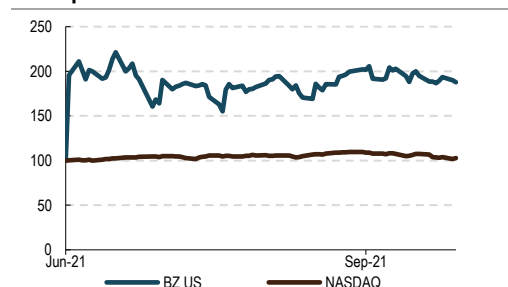
Source: Blue Lotus (as of, 8 October, 2021)

### BLRI vs. The Street

No. of Bloomberg Recommendations	4
Target price vs. Bloomberg mean	(20%)
1-year-fwd EPS vs. Bloomberg mean	(15%)
Bloomberg recommendation	4.2

Source: Bloomberg Recommendation, Blue Lotus (1=SELL,5=BUY)(as of, 8 October, 2021)

### Price performance and volume data



Source: Bloomberg, Blue Lotus (as of, 8 October, 2021)

### Research team



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Blue Lotus Capital Advisors Limited

All prices are those current at the end of the previous trading session unless otherwise indicated. Prices are sourced from local exchanges via Reuters, Bloomberg and other vendors. Data is sourced from Bloomberg, Blue Lotus Capital Advisors Limited and subject companies. Consensus forward estimates are used in analysis. Past performance is not indicative of future results. Investors should consider this report as only a single factor in making their investment decision.

## Kanzhun Ltd.: Financial Summary

Fiscal year ends-31-Dec

### Exhibit 1. Income statement

RMB (mn)	2020A	2021E	2022E
Revenues	1,944	4,442	7,045
Cost of revenues	(240)	(548)	(874)
Gross profit	1,704	3,894	6,171
Gross margin	88%	88%	88%
Research and development expenses	(513)	(880)	(1,179)
Selling and marketing expenses	(1,348)	(2,240)	(3,272)
General and Administrative Expenses	(797)	(1,997)	(704)
Share-based compensation expense	(674)	(1,882)	(352)
Income from operations, GAAP	(945)	(1,208)	1,035
Operating margin, GAAP	(49%)	(27%)	15%
Income from operations, non-GAAP	(271)	674	1,387
Operating margin, non-GAAP	(14%)	15%	20%
Net income (loss), GAAP	(942)	(1,183)	1,035
Net margin, GAAP	(48%)	(27%)	15%
Net income (loss), non-GAAP	(268)	699	1,387
Net margin, non-GAAP	(14%)	16%	20%

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

### Exhibit 2. Balance sheet

RMB (mn)	2020A	2021E	2022E
Cash and cash equivalent	3,998	14,516	17,756
Short-term investments	536	536	536
Accounts receivable	7	16	26
Amounts due from related parties	41	91	142
Prepayments and other current assets	165	393	393
Non-current assets:	336	445	547
Property, equipment and software, net	191	300	402
Intangible assets, net	1	0	0
Right-of-use assets, net	144	144	144
Total Assets:	5,083	15,997	19,400
Accounts payable	42	88	130
Deferred revenue	1,200	2,492	3,979
Other payable and accrued liabilities	418	1,119	1,605
Operating lease liabilities, current	60	60	60
Non-current Liabilities:	76	76	76
Operating lease liabilities, non-current	76	76	76
Total Liabilities:	1,796	3,834	5,850
Mezzanine equity:	5,587	0	0
Shareholders' deficit	(2,300)	12,163	13,550
Ordinary shares	0	1	1
Accumulated other comp. income/(loss)	(130)	1,752	2,104
Accumulated deficit	(2,622)	(3,806)	(2,771)
Total Liabilities, Mezzanine equity & shareholder deficit	5,083	15,997	19,400

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

### Company Description

Kanzhun Ltd. offers online recruitment service in China through its leading product Boss Zhipin that emphasizes two-way interactive communication between job seekers and employers. In 2021, we estimate Kanzhun's MAU to be 35-40% of total MAU of China's online job seeking segment and its revenue market share to be ~30%.

### Industry View

We expect China's recruiting service industry to grow from RMB171bn in 2020 to RMB475bn by 2025. Online recruiting service to grow from RMB55bn in 2020 to RMB244bn by 2025. Within online recruiting, we expect online job seeking to grow from RMB11bn in 2020 to RMB40bn in 2025; online headhunting to grow from RMB22bn in 2020 to RMB43bn in 2025 and online recruiting process outsourcing (RPO) to grow from RMB23bn to RMB161bn.

### Exhibit 3. Cash flow statement

RMB (mn)	2020A	2021E	2022E
Net loss	(942)	(1,183)	1,035
Adjustment to net cash from operating activities			
Share-based compensation	124	1,882	352
Issuance of Class B ordinary shares to TECHWOLF limited	533	0	0
Depreciation and amortization	41	52	84
Loss from disposal of PP&E	0	0	0
Foreign exchange (gain)/loss	5	0	0
Amortization of right-of-use assets	67	0	0
Change in operating assets and liabilities:	567	1,750	1,956
Net cash from operating activities	396	2,500	3,426
Purchase of property, equipment and software	(138)	(160)	(186)
Proceeds from disposal of PP&E	0	0	0
Purchase of short-term investments	(1,834)	0	0
Proceeds from maturity of short-term investments	2,440	0	0
Net cash from investing activities	467	(160)	(186)
Proceeds from issuance of preferred shares	2,803	0	0
Proceeds from issuance of Class A shares	79	8,177	0
Proceeds from borrowings	0	0	0
Repayment of borrowings	0	0	0
Repurchase of TECHWOLF shares	0	0	0
Net cash from financing activities	2,882	8,177	0
Effect of FX	(154)	0	0
Net (decrease)/increase in cash and cash equivalents	3,591	10,517	3,240
Cash and cash equivalents at beginning of year	407	3,998	14,516
Cash and cash equivalents at end of year	3,998	14,516	17,756

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

See the last page of the report for important disclosures

## Recent Reports

September 30th, 2021: [RemeGen (9995 HK, BUY, TP HK\$125) Initiation]: **A leading ADC company focusing on innovation**

September 30th, 2021: [Tencent Music (TME US, HOLD, TP US\$8.3) Target Price Change]: **3Q21 Preview: Trim TP given growth pressure**

September 28th, 2021: [Blue Lotus Sector Update]: **Shopee still has dominant position**

September 27th, 2021: [KE Holdings (BEKE US, BUY, TP US\$26) Company Update]: **Slowdown steeper than we expected**

September 27th, 2021: [Zai Lab (ZLAB US, BUY, TP US\$152) Initiation]: **Early mover and adaptor of new paradigm**

September 24th, 2021: [Trip.com (TCOM US, BUY, TP US\$44) Target Price Change]: **Well-positioned to capture pent-up demand**

September 23rd, 2021: [Bilibili (BILI US, HOLD, TP US\$71.2) Company Update]: **Huahuo will drag Bili's margin**

September 23rd, 2021: [Alibaba Health (241 HK, SELL, TP HK\$4.1) Company Update]: **Sluggish August sales pointed to earning miss**

September 23rd, 2021: [Zhihu (ZH US, HOLD, TP US\$8) Initiation]: **A bumpy way to expand**

September 16th, 2021: [Blue Lotus Sector Update]: **NEVs continued strong momentum in August**

September 15th, 2021: [Alibaba Health (241 HK, SELL, TP HK\$4.1) Rating Change]: **Not yet a value stock...DG to SELL**

September 15th 2021: [PAGD (1833 HK, HOLD, TP HK\$57) Rating Change]: **Margin outlook challenging despite the niceties**

## Investment Cases at a Glance

### Why is it NOT a BUY

- **Valuation is too expensive:** At total outstanding diluted ADS of 548mn, Kanzhun (BZ) is trading at 17x 2022E price-to-sales (PS) and 87x 2022E price-to-earnings (PE), far more expensive than Chinese SaaS/PaaS and global SaaS/PaaS peer groups;
- **Online job seeking is a finite market and BZ is already big:** We estimate online job seeking to be worth RMB15bn in 2021, of which BZ's market share would have reached 29%, up from 18% in 2020. We expect the market size of online job seeking to grow to RMB40bn by 2025, in which time we expect BZ's revenue market share to reach 40%;
- **Investors should consider anti-monopoly concerns now:** BZ's SME focus makes it more propend to government price regulations, in our view. As of August 2021, BZ's monthly active user (MAU) already reached 37% of the industry, according to Questmobile. We believe BZ's revenue market share will be hard to get past 35%;
- **Expansion to blue-collar recruiting and online headhunting won't be easy or worthwhile:** Online job seeking largely maps to white-and-gold-collar recruiting. Blue-collar recruiting requires different user interface and is unlikely to co-exist with BZ's current app. Staffing and Recruiting Process Outsourcing (RPO) solutions have low margins, growth profiles and valuations. Online headhunting treats apps like BZ as a résumé source, thus unlikely to pay high ARPU's;
- **Staffing and RPO will be margin and working capital dilutive:** A-share and H-share listed staffing and RPO firms have low gross margins (~10%). The reason is they take on hiring by themselves;
- **Freelancer marketplace has limited success in China:** Freelancer marketplaces have high margins but in China they have limited market size;
- **AI-driven job seeking will be a long and treacherous road:** Artificial intelligence (AI) driven candidate screening suffers not only from a lack of standardization, but also lacks of authenticity of the input and privacy of the disclosure. The primary market has no successful example of AI-driven job seeking. Without technology-driven efficiency improvement, BZ will eventually run into a monetization bottleneck, in our view;
- **Working capital advantage will diminish after entering mid-to-large enterprises:** Mid-to-large enterprises will likely not pay a substantial amount of deferred revenues. BZ's account receivables may also go up.



September 15th 2021: [Blue Lotus Sector Initiation]: **China's digital health: too expensive and too early**

September 15th 2021: [YIDU Tech (2158 HK, SELL, TP HK\$10) Initiation]: **Hard to reach a breakeven point...Initiate @SELL**

September 15th 2021: [JD Health (6618 HK, SELL, TP HK\$30) Initiation]: **Better than peer but not good enough...Start @SELL**

September 15th 2021: [Alibaba (BABA US, BUY, TP US\$225) Rating Change]: **Beneficiary of connectivity, UG to BUY**

September 14th 2021: [ZTO Express (ZTO US, BUY, TP US\$34.5) Target Price Change]: **Delivery fee hike leads to more benign competition**

September 10th 2021: [Blue Lotus Sector Update]: **Live streaming is under more scrutiny**

September 10th 2021: [Blue Lotus Sector Update]: **[Blue Lotus Data Tracker]: After-school-tutoring faced new challenges**

September 7th, 2021: [Blue Lotus Sector Update]: **Game code approval is likely to be further tightened**

September 6th, 2021: [[Li Auto (LI US, BUY, TP US\$50) C2Q21 Review]]: **3Q21 guidance conservative, but strongest vs. peers**

September 3rd 2021: [Blue Lotus Sector Update]: **New regulations bring wide impact to online ads**

September 3rd 2021: [Blue Lotus Sector Update]: **Cloud market slightly impacted by tightened regulation**

September 1st 2021: [Leju Holdings (LEJU US, BUY, TP US\$2) Target Price Change]: **(China Evergrande) bad debt concern**

## Why is it NOT a SELL

- **Margin leverage is real:** BZ's penetration of SME proprietors and enterprise work groups convert low frequency into mid-to-high frequency. We expect BZ's non-GAAP operating margin to reach 16% by 2025 and 19% by 2030;
- **Reliance of SME on BZ is real:** Based on our channel check, BZ is the only recruiting channel for many SME's, which means their tolerance for price hikes, at least in the short term, is substantial. This, however, has three shortfalls: (1) BZ's rivals, especially 51Job, can go down market, (2) price hikes might invite the intervention of the government, (3) SME's, living on thin margins, may exit;
- **Penetration into mid-to-large enterprises will happen:** By involving line managers at the workgroup level, BZ sagaciously leveraged the ubiquitous penetration of mobile Internet, proliferation of mobile payment, rising adoption of mobile-based enterprise management and workplace collaboration tools, and recommendation-based information flow. To this date, BZ continues to be generations ahead of its rivals in the use of mobile Internet to its benefit, in our opinion;
- **Competition lacks coordination, vision and leadership:** 51Job (JOBS US, NR), Zhaopin (private) and ChinaHR (private) have received investment or become subsidiaries of Recruit (6098 JP, NR), SEEK (SEK AU, NR) and Monster.com (private). We believe management incentive will be a serious problem for them. Liepin (6100 HK, NR) has prematurely confined itself to online headhunting and thus limited itself in scale. BZ's CEO Jonathan Zhao Peng was the CEO of Zhaopin from 2005-2010, having successfully run two of the top companies in the online job seeking sector;
- **BZ app can still accommodate some blue-collar and online headhunting demand:** We believe both recruiters and job seekers in the blue-collar market will find BZ's app overly complex for their needs. We also believe online headhunting views BZ as one of the résumé collection channels. But these will not prevent BZ's app still attract some of the blue-collar and online headhunting demands;
- **China's education reform will likely shift recruiting burden to the employers:** The gist of China's education reform is to blur the screening function of education. The consequence, as seen in taking place in the West, is to shift the burden of candidate screening to the employers. The added screening cost will be spent on solutions that can enhance recruiting efficiency, like BZ;
- **Tencent's shareholding reduces risk:** Following the IPO Tencent would have hold 8.6% of BZ, representing as the 2<sup>nd</sup> largest institution shareholder. We believe Tencent has the greatest potential to be China's Linked-In and is thus BZ's biggest potential threat. Due to Tencent's shareholding, we lower BZ's WACC from 15% to 14%;
- **Positive cash cycle similar to a game company:** BZ's deferred revenue is its biggest balance sheet item after cash, which results from its collection of

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September 1st 2021: [NetEase (NTES US, BUY, TP US\$143) Earnings Review]:

**<Naraka:Bladepoint> is trending online**

September 1st 2021: [Meituan (3690 HK, BUY, TP HK\$330) Earnings Review]: **Promising margin & strong operation, reiterate BUY**

August 31st 2021: [Yatsen Global (YSG US, SELL, TP US\$4.6) Target Price Change]:

**Disappointing 3Q21 guidance; Reiterate SELL**

August 31st 2021: [XPeng (XPEV US, BUY, TP US\$52.2) Earnings Review]: **Eyes on P5 to drive up sales volume**

August 27th 2021: [XD Inc. (2400 HK, BUY, TP HK\$60.5) Target Price Change]: **Expect top line growth slowdown, Cut TP to HK\$60.5**

August 27th 2021: [Autohome (ATHM US, BUY, TP US\$56.7) Target Price Change]: **Cut TP to US\$ 56.7 on foreseeable pressure**

August 26th 2021: [PAGD (1833 HK, BUY, TP US\$85) Target Price Change]: **Short-term losses to drive long-term growth**

August 26th 2021: [Kuaishou (1024 HK, BUY, TP HK\$114) Target Price Change]: **Cut TP because of weak monetization potential**

August 26th 2021: [Kuaishou (1024 HK, BUY, TP HK\$114) Target Price Change]: [Xiaomi (1810 HK, BUY, TP HK\$30) Target Price Change]: **Heavy lifting is about to begin**

prepayments for items purchased for rights and privilege on the BZ platform. In 2020, change in working capital change represented 323% of BZ's free cash flow (FCF). By 2030, we estimate working capital change would still constitute 45% of its FCF. Entering staffing and RPO, however, will negatively impact BZ's cash cycle.

### What are the key catalysts for the next 3-6 months

- **Reinstitution of new user registration (+):** On July 5, 2021, BZ was suspended for new user registration by China's Internet regulator. According to the law the suspension should last 45 days but till today it still hasn't been reinstituted. BZ's MAU, however, appears unaffected by the suspension. Resumption of new user registration will be a positive catalyst for BZ;
- **Data privacy and antitrust probes (-):** BZ will be subject to <Hold Foreign Companies Accountable Act> and shall disclose its auditing draft to PCAOB within three years of its listing. If Chinese authorities believe BZ possesses sensitive labour or shareholding information, it might take punitive actions to urge BZ to delist. Further, 58.com chairman Michael Yao Jinbo has previously accused competitor Beike (BEKE US, BUY, US\$26) as a monopolist. Mr. Yao is likely to accuse BZ as monopolist, too since 58.com competes against BZ in the online blue-collar recruiting segment.

### Where can we be wrong?

- **Technology advancement unlocks the potential in both online job seeking and staffing/RPO:** If AI technology can significantly improve the efficiency of recruiting without inviting privacy scrutiny, its practitioner can hike the price without inviting government intention. Further, if technology advancement can transform the staffing/RPO business into a high margin business, its practitioner can take market from legacy players with profit. Both, if happens, will lead to us re-evaluate BZ's target price;
- **BZ uses Tencent Mini-Program to tackle the blue-collar market:** Recruiting has not been a successful segment of Tencent Mini-Program, which is naturally suitable. We thus believe thus represent an opportunity for blue-collar recruiting.

### What can change our view?

- **New technology that can significantly improve the efficiency of recruiting:** Currently we do not see such technology exists;
- **BZ launched new apps for blue-collar recruiting or freelance marketplace and achieved significant traction in traffic.** To change our view, such success must also be achieved with sustainable cost.

## Operating Metrics

Exhibit 4. Quarterly operating table

RMB (mn)	4Q20	1Q21	2Q21	3Q21E	4Q21E	1Q22E	2Q22E
Revenues	645	789	1,168	1,231	1,255	1,522	1,834
Cost of revenues	(79)	(107)	(143)	(144)	(154)	(206)	(225)
<b>Gross profit</b>	<b>566</b>	<b>682</b>	<b>1,025</b>	<b>1,087</b>	<b>1,100</b>	<b>1,316</b>	<b>1,609</b>
Gross margin	87.7%	86.4%	87.7%	88.3%	87.7%	86.4%	87.7%
Research and development	(152)	(164)	(250)	(231)	(235)	(285)	(287)
Selling and marketing	(321)	(619)	(534)	(539)	(549)	(951)	(802)
General and Administrative	(626)	(82)	(1,667)	(123)	(125)	(152)	(183)
Share-based compensation	(598)	(49)	(1,709)	(62)	(63)	(76)	(92)
Income from operations, GAAP	(533)	(182)	(1,426)	195	191	(73)	337
Operating margin, GAAP	(82.6%)	(23.1%)	(122.1%)	15.8%	15.2%	(4.8%)	18.4%
<b>Income from operations, non-GAAP</b>	<b>66</b>	<b>(134)</b>	<b>283</b>	<b>256</b>	<b>254</b>	<b>3</b>	<b>429</b>
Operating margin, non-GAAP	10.2%	(17.0%)	24.2%	20.8%	20.2%	0.2%	23.4%
<b>Net income (loss), GAAP</b>	<b>(529)</b>	<b>(176)</b>	<b>(1,414)</b>	<b>206</b>	<b>201</b>	<b>(63)</b>	<b>350</b>
Net margin, GAAP	(82.1%)	(22.3%)	(121.1%)	16.8%	16.0%	(4.1%)	19.1%
Net income (loss), non-GAAP	69	(128)	295	268	263	13	442
Net margin, non-GAAP	10.7%	(16.2%)	25.3%	21.8%	21.0%	0.9%	24.1%
MAU (mn)	20	25	30	31	32	35	38
Total users (mn)	88	99	122	122	127	139	152
Enterprise users (mn)	11	13	16	17	18	20	22
Paid enterprise users (mn)	2.2	2.9	3.6	3.7	4.0	4.6	5.1
Revenue per paid enterprise user, 12M (RMB)	864	841	877	1,017	1,088	1,122	1,138

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

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## Enhancing efficiency holds the key to valuation

Labor demand outstripping supply is a global phenomenon in the current up cycle of the global economy. Yet, with the US-China split off, China's low birth rate, manufacturing priority and restrictive immigration, labor shortage might be here to stay. Kanzhun combines such macro backdrop with its direct hiring (Zhipin) business model, leveraging mobile Internet to involve hiring line managers and small-medium-enterprise (SME) owners to collaborate on the recruiting process. We view Kanzhun's (BZ) innovation as being similar to Beike's (BEKE US, BUY, US\$26) Agent Cooperation Network (ACN). But to further capture value in the white-to-gold-collar hiring market and enhance ARPU, Kanzhun must enhance efficiency in the hiring value chain.

### Mobile Internet lowered the usage barrier of direct hiring (Zhipin)

Comparing the operating matrices of Kanzhun (BZ) and competitor Liepin (6100 HK, NR) we found that while BZ platform's number of job seekers was 130% of Liepin's, its number of hiring managers was 12x of Liepin's and ~30x of 51Job's (JOBS US, NR).

Such difference is the key behind BZ's rapid rise in the online recruiting sector, in our view. Similar to Microsoft Outlook's defeating of Lotus Notes by focusing on the work groups in the enterprise, BZ also focused on winning over the line managers of enterprises and SME owners. Thanks to the proliferation of smartphones, these two groups of direct hiring managers can now actively participate in the hiring process. The participation of SME owners directly enlarged the market. As we can see in Exhibit 5, 51Job's number of verified business users declined each year since 2017, suggesting that it likely ceded the low-end of the market to BZ's benefit.

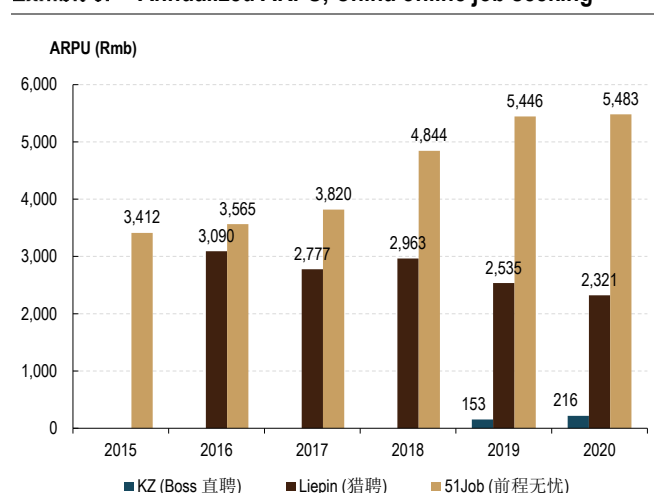
*Mobile Internet lowered the usage barrier for line managers and SME owners to participate in the hiring process.*

**Exhibit 5. Key business matrices of Chinese online recruiting**

(mn)	2016	2017	2018	2019	2020
<b>Monthly Active User (MAU)</b>					
BZ (BOSS 直聘)	NA	NA	4.6	11.5	19.8
Liepin (猎聘)	NA	NA	3.0	4.1	5.8
51Job (前程无忧)	NA	NA	7.7	8.8	9.3
Zhaopin (智联招聘)	NA	NA	8.5	9.0	10.8
Maimai (脉脉)	NA	NA	15.0	4.4	4.1
<b>Verified enterprise/business users or unique employers + headhunters</b>					
BZ	NA	NA	NA	6.5	11.4
Liepin	0.24	0.35	0.48	0.72	0.89
51Job	0.46	0.52	0.49	0.42	0.36
<b>Verified job seekers</b>					
BZ	NA	NA	NA	44.8	76.7
Liepin	NA	38.9	46.9	54.2	63.2
51Job	NA	NA	NA	NA	NA

Source: Kanzhun, Liepin, 51Job, Questmobile, Blue Lotus (as of 8 October, 2021), end of year. Definitions of verified business user and unique employer vary but both include multiple users within one company.

**Exhibit 6. Annualized ARPU, China online job seeking**



Source: Kanzhun, Liepin, 51Job, , Blue Lotus (as of 8 October, 2021))

### SME will likely be priced out of BZ soon

Human resource managers resist the notion of job seekers talking directly to the hiring managers. In the days prior to mobile Internet, they have a good reason. But in the days after, especially after the pandemic, they have no more. The ubiquitous penetration of mobile phones, coupled with SaaS-

*Direct hiring (Zhipin) involves the line manager into the hiring process, culminating a quiet revolution from within against the HR department.*

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enabled workflows, can substitute most of the offline recruiting process steps in the past. HR managers have no reason to resist. But is the line manager's time really well spent by talking to an enlarged group of candidates? The answer is not always, but line managers can easily gain an upper hand.

What will be challenging is the SME owners, in our view, who live on usually thin profit margins. SME's hiring matrix is often interlinked with various aspects of their businesses, such as employee retention rate, training cost, pay scale and benefits, and hence cannot be calculated on a return-on-investment basis. Therefore, just as they quickly realizing the value of BZ to their business, they can also quickly switch to alternatives if BZ becomes too pricy. We believe that just like SME's were priced out of Taobao and Tmall following Alibaba's (BABA US, BUY, US\$ 225) IPO, so will SME's be priced out of BZ in a foreseeable future.

*We expect SME owners to be less tolerant of BZ's price hikes and therefore be priced out of BZ soon.*

## Work group of medium-to-large enterprise will be BZ's next step

We also believe blue collar recruiting and online headhunting will be difficult for BZ, despite their sizes (Exhibit 7). For starters, we estimate 80% of blue-collar recruiting does not need to use an app. Neither do the job seekers need to use résumés. Weixin and QQ Group can be more effective tools for these recruiting scenarios. Further, in some of the low-end white-collar to high-end blue-collar areas, staffing solutions might rise to take the lead over recruiting solutions. We believe Chinese government also would like to encourage staffing and RPO providers to take over the payroll, social security and health insurance aspect of the employment.

*Low end white collar and high-end blue collar will be the realm of staffing solutions or recruiting process outsourcing (RPO) providers.*

In online headhunting, at the low-end of headhunting and at the high-end of online job seeking, headhunters treat BZ as a résumés database to minimize cost. Such database exists widely in Linked-In, Maimai, Weibo, Weixin Moments, Weixin Groups and QQ Groups. Headhunters are like SME owners. It is unlikely they pay a meaningful ARPU.

**Exhibit 7. Human resource, recruiting, online recruiting and online job seeking market size estimates**

(RMB bn, bn)	2019	2020	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
China GDP	99,087	101,599	110,234	119,053	127,982	136,941	145,842	154,593	163,095	171,250	178,956	186,115
<b>Human resource service</b>	<b>540</b>	<b>565</b>	<b>717</b>	<b>857</b>	<b>1,024</b>	<b>1,219</b>	<b>1,386</b>	<b>1,546</b>	<b>1,713</b>	<b>1,884</b>	<b>2,058</b>	<b>2,233</b>
As % of GDP	0.54%	0.56%	0.65%	0.72%	0.80%	0.89%	0.95%	1.00%	1.05%	1.10%	1.15%	1.20%
<b>Recruiting service</b>	<b>160</b>	<b>171</b>	<b>220</b>	<b>270</b>	<b>331</b>	<b>402</b>	<b>475</b>	<b>542</b>	<b>613</b>	<b>689</b>	<b>768</b>	<b>850</b>
HR outsourcing	199	210	270	326	390	474	538	604	673	745	819	894
Payroll and personnel	99	104	123	143	166	190	209	226	241	256	270	281
Others	83	81	103	118	137	152	163	175	185	194	202	208
<b>Online recruiting service</b>	<b>48.7</b>	<b>55.1</b>	<b>78</b>	<b>103</b>	<b>136</b>	<b>186</b>	<b>244</b>	<b>305</b>	<b>363</b>	<b>429</b>	<b>489</b>	<b>555</b>
Online penetration	30.5%	32.3%	35.3%	38.3%	41.3%	46.3%	51.3%	56.3%	59.3%	62.3%	63.8%	65.3%
Segment by worker												
Blue collar workers	19	23	34	47	66	93	126	162	198	239	279	321
White collar workers	26	29	39	49	61	80	100	119	136	154	169	186
Gold collar workers	3.1	3.4	5.0	6.9	9.5	13	18	23	29	35	41	48
Segment by activity												
<b>Online job seeking</b>	<b>11</b>	<b>11</b>	<b>15</b>	<b>20</b>	<b>27</b>	<b>33</b>	<b>41</b>	<b>50</b>	<b>60</b>	<b>69</b>	<b>79</b>	<b>83</b>
Online head hunting	19	22	27	32	37	41	44	46	48	48	48	48
Online RPO	19	23	34	47	66	93	126	162	198	239	279	321
Growth rate												
Online job seeking	17%	0.9%	40%	35%	30%	25%	25%	20%	20%	15%	15%	5%
Online head hunting	26%	14%	25%	20%	15%	10%	8%	5%	3%	2%	0%	0%
Online RPO	32%	19%	48%	40%	39%	41%	36%	29%	22%	21%	17%	15%

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

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Hence, we believe penetrating work groups in medium to large enterprises will be BZ's next leg of growth. This means in its next phase of growth, BZ will come to direct competition with 51Job, Zhaopin and Liepin. We are modestly optimistic that BZ will continue to win market share from these rivals.

## BZ plays a disruptive game

As Exhibit 6 shows, BZ's ARPU was ~1/10 of Liepin's and 1/20 of 51Job's, based on the same definition of online job seeking revenue divided verified enterprise users. While BZ, Liepin and 51Job each defined business/enterprises and business/enterprise users differently, we found it fair to say that traditional online recruiting solutions (Liepin, 51Job and Zhaopin) focused on companies while BZ focused on individuals within the companies. BZ is also assisted by the advent of mobile payment and SME's lack of time and expense workflows. To this end BZ is similar to an item-based game, in which SME proprietors incur the recruiting cost and expense it internally. It is fair to say that by doing so, BZ effectively evaded customers' HR cost control. In 2020, BZ had 11.4mn verified enterprise users working in 5.5mn verified enterprises, suggesting its reliance on SME was still significant. Going forward, BZ is trying to organize HR and line managers under one umbrella account so as to institute account-wide entitlements.

Because BZ grants line managers direct access to hiring, it knows first-hand where to apply monetization points within the workflow. As such, we believe, theoretically, it can monetize the user base more so than its peers, similar to item-based free-to-play games being able to monetize more than subscription-based pay-to-play games.

## BZ borrows from Linked-In and Toutiao

BZ's competitors are PC-era creatures. 51Job was founded in 1998 and went public in 2004. It launched its first iOS mobile app in 2011 (Exhibit 8). Zhaopin was founded in 1994, went public in 2014 and privatized in 2017. It launched its first app in 2012. ChinaHR (中华英才网) was founded in 1997, invested by Monster.com in 2005 and acquired by 58.com in 2015. It launched its first app in 2013. These companies experienced the evolution of recruiting solutions from paper-based to PC-based portal and search models. In 2015, Linked-In entered China and pioneered the notion of combining a résumé and a personal portal, thereby paving the way for direct contact between job seekers and hiring managers. Also in 2015, Toutiao made it clear that information flow and recommendation is more native way of using mobile Internet than keyword search.

*BZ's very low ARPU suggests that it has been playing a totally different ball game from its competitors.*

*By involving line managers in the hiring process, BZ can set up pay points precisely at users' pain points. We believe BZ can monetize more than its rivals.*

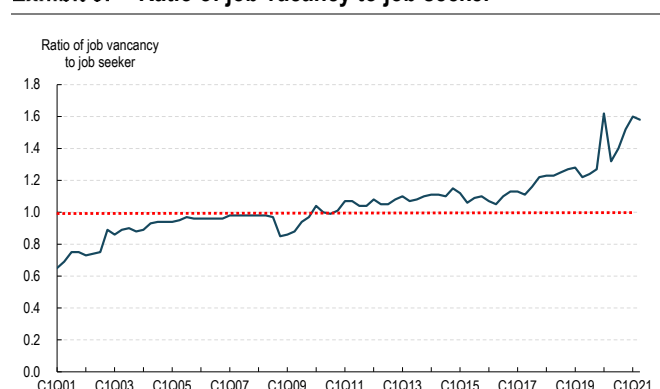
*Linked-In pioneered the direct hiring model. Toutiao used recommendation to sweep search into the history. BZ leveraged both into online job seeking.*

**Exhibit 8. iOS mobile app launch date and version information**

	Company founded	1st Chinese iOS app	Latest version	No. of updates 12M
<b>BZ</b>	<b>2014</b>	<b>7/7/2014</b>	<b>9.120</b>	<b>25</b>
Maimai	2012	12/16/2014	6.1.22	52
Liepin	2006	8/12/2014	5.14.0	28
58	2006	5/25/2012	10.21.5	25
Linked-In	2003	12/2/2015	2.84	26
51Job	1998	1/27/2011	10.2.0	19
ChinaHR	1997	6/5/2013	8.31	5
Zhaopin	1994	1/4/2012	8.3.7	42

Source: QIMAI, Blue Lotus (as of 8 October, 2021)

**Exhibit 9. Ratio of job vacancy to job seeker**



Source: MOHRSS, Blue Lotus (as of 8 October, 2021)

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As shown in Exhibit 8, BZ, Liepin and Maimai launched their mobile apps in 2014-15, all of which were based on information flow and recommendation. Among the three, Liepin focused on the headhunting segment, missing the opportunity brought by ubiquitous penetration of mobile Internet. Maimai focused on social recruiting, trying to become China's Linked-In. But the efficiency of social recruiting is too low for enterprise to pay for it.

## Direct hiring is itself a reflection of labour shortage

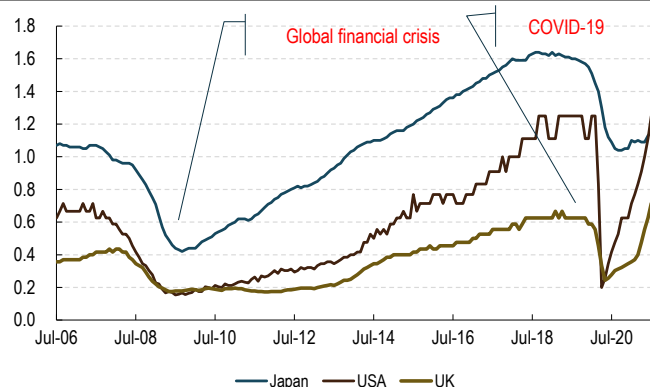
As Exhibit 7 shows, BZ's segment, online job seeking, is a small subsegment of RMB11bn in 2020, in the overall human resource services market, which was valued at RMB565bn in 2020. It is also a transaction-based brokerage business. BZ is tasked with assisting a hiring, yet not responsible for the ensuing employment that can last short or long. This means BZ, like other low frequency brokers like real estate and automobile brokers, must constantly spend on marketing to reacquire users.

The past twenty years, however, have witnessed the transition from labour oversupply to overdemand in China (Exhibit 9) and globally (Exhibit 10). The global financial crisis in 2008 and the COVID pandemic in 2020 caused temporary drops in labour demand in the West, but in both cases quickly recovered. Neither, however, caused a blip of disruption in China's labour demand and supply ratio. At 1.58 in C2Q21, China's labour demand outstripped supply by more than 50% (Exhibit 9).

*BZ brokers talent. The past twenty years have been two golden decades for labor shortages.*

*BZ's segment, online job seeking, is a small subsegment of the overall human resource services market.*

**Exhibit 10. Ratio of job vacancy to job seeker, global comparison**



Source: MHLW, DOL, ONS, Blue Lotus (as of 8 October, 2021)

**Exhibit 11. Ratio of job vacancy to job seeker**

(RMB mn)	2021E	2022E	2023E	2024E	2025E
Total BZ revenue	4,442	7,045	11,914	17,101	23,535
Online job seeking (OJS)	4,442	7,045	10,614	13,268	16,585
Non-online job seeking (NOJS)			1,299	3,833	6,951
OJS market share	29.4%	34.5%	40.0%	40.0%	40.0%
OJS gross margin	88%	88%	86%	86%	86%
NOJS gross margin			50%	45%	40%
Blended gross margin	87.7%	87.6%	81.2%	76.0%	71.7%
S&M as gross billing	39%	38%	37%	36%	35%
R&D as gross billing	15%	14%	13%	12%	11%
Operating margin, non-GAAP	15%	20%	17%	16%	16%
Deferred rev. as gross billing	23%	17%	16%	15%	14%

Source: Kanzhun, Blue Lotus (as of 8 October, 2021)

In our view, the popularity of direct hiring is itself a reflection of labour shortage, so that hiring now requires the direct attention of the "boss". Yet going forward, China's labour shortage is unlikely to be alleviated, considering:

- Government's stated strategic goal in deemphasizing resource-centric sectors like real estate and emphasizing on human-capital-centric sectors like innovation;
- China's stated intention to keep manufacturing in China and retain the role of the world's factory;
- China's restrictive immigration policy and its wide-spread popular support, which seems unlikely to ease anytime soon.
- Declining birth rate.

*Labor shortage benefits BZ in three ways: (1) hirers are willing to pay more, (2) more job hopping by job seekers, (3) less marketing needed to reacquire users.*

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The lopsided demand and supply imbalance not only means workers job hop more, but also means BZ needs to spend less marketing to reacquire users. It also means hiring organization are more likely to pay more for efficiency enhance solutions.

### But the logic holds only if BZ helps improving recruiting efficiency

Online job seeking is a small segment of human resource and recruiting services because it is an efficiency enhancing tool. Unlike staffing solutions and RPO, which constitute far bigger shares of the market, online job seeking does not take employment responsibility onto its shoulders, while staffing and RPO do. But it also means if BZ stops being helpful, its value in the value chain will be greatly reduced.

The recent anti-monopoly campaign has illustrated that Chinese government will not tolerate rent seeking behavior by the Internet platforms. If the value of BZ is only to feature the broadest scope of résumés, its market power will likely not go unchallenged, in our opinion.

*Online job seeking is a high-tech business while staffing and RPO are not.*

This means BZ must continuously invest in R&D to improve the quality of recommendation. Such improvement is easier said than done. Information on résumés is highly unstructured, unverified and nongranular. To make better assessment of a candidate, both sides of the employment must incorporate more dimensions of data to perform better assessment.

### Impact of our assumptions on BZ's gross margin, S&M and R&D

Exhibit 11 shows our key assumptions for BZ's gross margin, S&M, R&D and deferred revenues.

- **Gross margin:** We expect BZ's market share in online job seeking to top out at 40% in 2023. Incremental revenue will come from staffing, RPO and online headhunting, which will feature an initial estimated gross margin of 50% but will decline over time;
- **Sales marketing:** We expect BZ to incur sales marketing cost when entering staffing and RPO, which will offset the reduced need for marketing for the online job seeking segment;
- **R&D:** We expect BZ to incur R&D cost to apply AI-driven recruiting efficiency enhancement, which will offset the reduced need for R&D for the online job seeking segment;
- **Deferred revenue as gross billing:** We expect BZ to recognize more gross billings into revenues as it diversifies its revenue mix.



## Monetization surge closes traffic gap

BZ's revenue growth corresponded with but lagged behind its MAU growth. The recent uptick in growth reflected more of monetization growth than traffic growth. There has also been evidence that the industry benefited from increased awareness of BZ's business model.

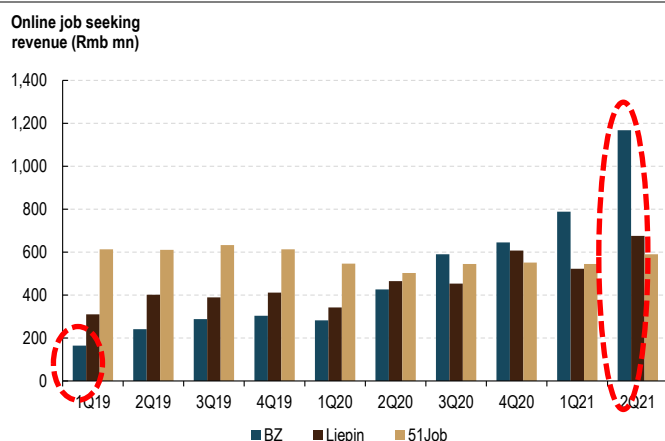
### BZ's monetization surge matches its traffic surge

From C1Q19 to C2Q21, BZ's revenue rose from half of Liepin and a quarter of 51Job to 1.7x of Liepin and 2x of 51Job, reflecting remarkable steps of monetization taking place successively. However, we found it only reflected BZ's surge in MAU prior. From C4Q18 to C2Q21, BZ's MAU rose from 150% of Liepin and half of 51Job to 2x of 51Job and 4x of Liepin (Exhibit 13).

BZ's DAU to MAU ratio is also one of the healthiest. It has the highest DAU/MAU ratio, meaning its users are more engaging and active, which was also stable, while Liepin's DAU/MAU ratio had a declining trend over time, suggesting its users are becoming less active over time (Exhibit 14). Overall, the MAU of online job seeking has been expanding at a pace of 10-20% with growth picking up in recent years. We attribute this acceleration to increased awareness from BZ's IPO.

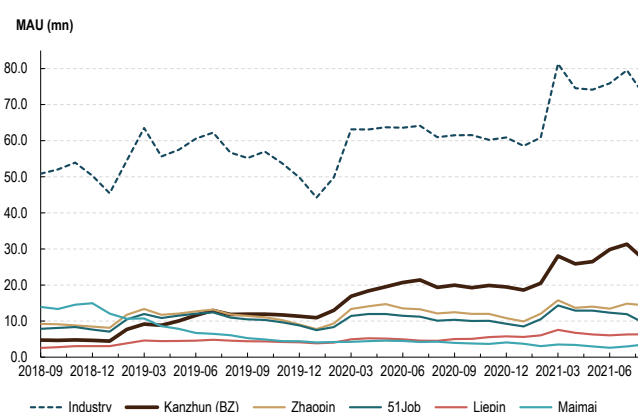
*In C2Q21, BZ's online job seeking revenue was 1.7x of Liepin and 2x of 51Job, while its MAU was 4x Liepin and 2x of 51Job.*

**Exhibit 12. Revenue growth of online job seeking listco's**



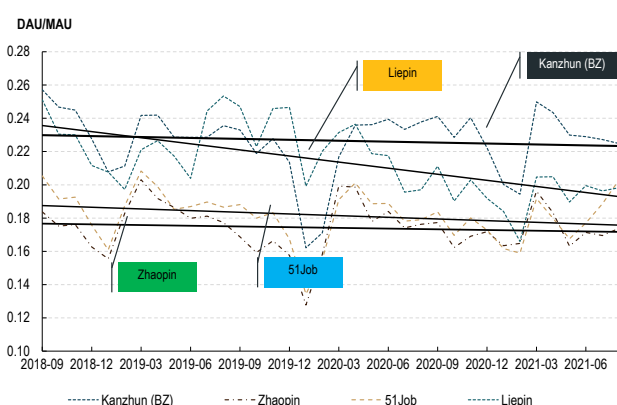
Source: BZ, Liepin, 51Job, Blue Lotus (as of 8 October, 2021)

**Exhibit 13. MAU trend of major online job seeking apps**



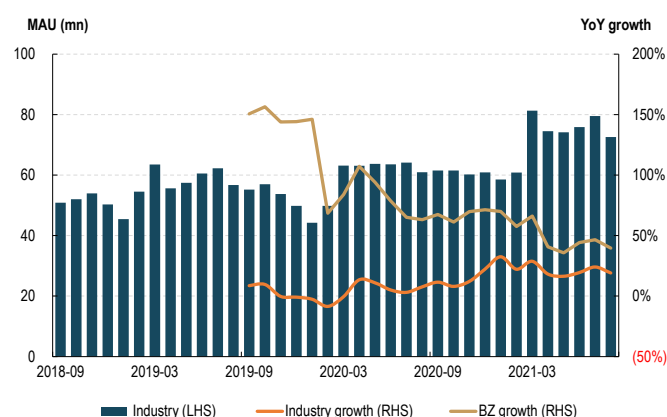
Source: Questmobile, Blue Lotus (as of 8 October, 2021)

**Exhibit 14. DAU/MAU trend of major online job seeking apps**



Source: Questmobile, Blue Lotus (as of 8 October, 2021)

**Exhibit 15. Industry MAU growth and BZ growth**



Source: Questmobile, Blue Lotus (as of 8 October, 2021)

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As Exhibit 15 shows, BZ is the only online job seeking app that achieved positive growth during COVID-19. BZ's growth stayed at triple digits when industry growth plunged to negative during the initial months of the pandemic.

## Where will BZ get its next leg of traffic growth?

BZ has historically outspent its rivals in sales and marketing. In 2020, BZ spent RMB1.35bn in sales and marketing, comparing to 51Job's RMB1.18bn and Liepin's RMB849mn. As percentage of revenues BZ spent 53%, 51Job spent 32% and Liepin 45%. Sales marketing is an important aspect of the business because job seekers must be continuously called back to the job market. Comparing to its rival, BZ has bigger scale than Liepin and higher gross margin than 51Job, making BZ more capable of outspending its competitors.

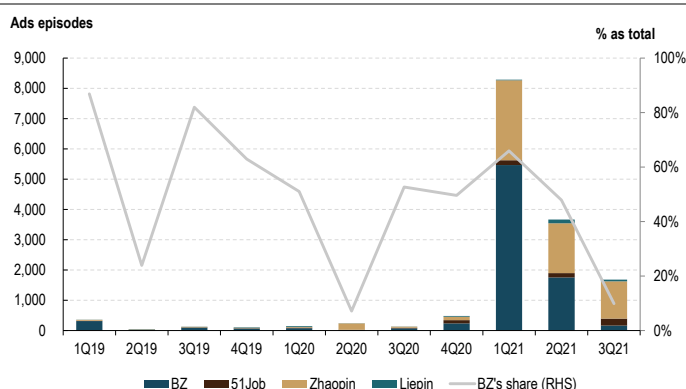
If measured by advertising expense per average MAU, BZ's traffic acquisition cost actually declined for both C4Q20 and C1Q21. We believe this is evidence to show that BZ's marketing campaign has achieved some sort of network effect, in which more recruiting managers staying on the platform attract more job seekers on the platform, and vice versa.

The question is whether BZ can realize similar kind of network effect when it comes to blue-collar recruiting. 58.com, before its privatization, showed in its P&L that it can achieve 20%+ non-GAAP operating margin at its steady state, at the expense of slowing top line growth (Exhibit 17). In 2015, 58.com had a resurrection of growth, thanks to its change in monetization model from membership fees to performance advertising. In our view, 58.com achieved 20%+ non-GAAP operating margin thanks to (1) its merger of Ganji, (2) becoming a one-stop-shop service provider to SME. But even so, monetization improvement can only carry 58.com such far after traffic growth came to an end. After a few unsuccessful attempts to seek new growth, 58.com privatized.

*BZ's advertising expense per average MAU has declined YoY by 10-15% in both C4Q20 and C1Q21, according to its prospectus.*

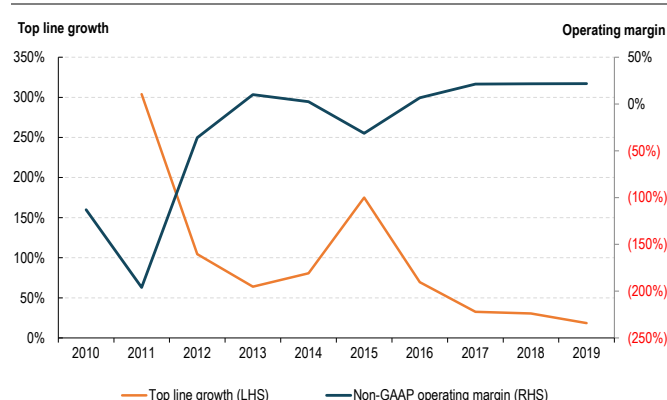
*The last comparable that achieved 20%+ operating margin is 58.com, but growth quickly flattened out.*

**Exhibit 16. Advertising episodes on mobile Internet**



Source: AdBug, Blue Lotus (as of 8 October, 2021)

**Exhibit 17. 58.com's top line and margin profile**



Source: 58.com, Blue Lotus (as of 8 October, 2021)

According to our tracking (Exhibit 16), BZ's number of advertising episodes have historically occupied 50-80% of the top four total. 3Q21, however, saw diminished ads spending, probably due to the government investigation that resulted in its suspension of new user registrations. We saw Zhaopin stepped up advertising in 2021 to compete against BZ.

*Zhaopin has shown its intention to compete for top spot against BZ.*

## Valuation puts a heavy load on growth

We differ from the consensus mainly in margin profile after 2023. We believe BZ will top out in market share in white-collar job seeking which will meet with government price cap on monetization. BZ's entry to blue-collar recruiting (staffing and RPO) and online headhunter will incur significant cost and effort and to little or no benefit to its valuation due to the margin and working capital dilutive nature of these businesses.

Further, thanks to multiple rounds of venture investment to spend on sales and marketing, BZ has an oversized fully diluted share count of 548mn (Exhibit 18), which is 34% bigger than stock price implied, 62% bigger than Bloomberg recorded and 314% bigger than reported in the C2Q21 earnings report.

*We differ from the consensus in BZ's margin profile after 2023.*

### Exhibit 18. Share count calculation

(mn)	Before IPO	Issued at IPO	Greenshoe	Issued to mgmt	After IPO
Class A ordinary	563.1	96	14.4		673.5
Class B ordinary	116.1			24	140.1
Total outstanding shares	679.2	96	14.4	24	813.6
+Outstanding share options @US\$3.66/ADS					137.2
+2020 share incentive plan					145.7
Fully diluted shares					1,097
Fully diluted ADS					548.3
Stock price (US\$)					33.34
Market cap (US\$ mn)					18,280

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021), 1ADS=2share

### Exhibit 19. DCF valuation

Year to Dec (RMB mn)	2020A	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	Terminal
Core model assumptions												
Revenues	1,944	4,442	7,045	11,914	17,101	23,535	31,553	41,736	51,543	57,009	61,139	61,139
EBIT	(271)	674	1,387	2,053	2,754	3,711	4,789	6,096	7,478	10,043	11,347	11,347
NOPAT	(271)	674	1,387	2,053	2,754	3,247	4,190	5,334	5,609	7,532	8,510	8,510
Capex, net	(138)	(160)	(186)	(216)	(250)	(290)	(337)	(391)	(453)	(526)	(610)	(610)
Depreciation & amortization	18	41	52	84	121	164	214	272	339	417	508	508
Change in working capital	567	1,750	1,956	2,930	3,666	4,531	5,537	6,650	7,370	7,051	6,855	6,855
Free operating CF (FoCF)	176	2,305	3,208	4,851	6,291	7,652	9,604	11,866	12,865	14,475	15,264	202,242
WACC		14.0%										
NPV of FoCF		99,453										
+ Net cash (debt), current		4,535										
- Minorities (Market value)		0										
= Equity value (RMB mn)		103,988										
= Equity value (USD mn)		16,248										
(÷) Shares (mn)		475										
Implied value per Share (\$US)		34.2										

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

As shown in Exhibit 20, if using the consensus estimate, BZ isn't expensive comparing to the US SaaS and global online job seeking peer group. But if using our estimate, BZ's PE multiple stood at 87x 2022 and 60x 2023. Using 548mn ADS and out estimate, BZ's price to sales stood at 17x 2022 and 10x 2023.

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**Exhibit 20. Peer comparison table**

		Price	Mkt Cap	PE (Consensus)			PS (Consensus)			EV/EBITDA (Consensus)		
	Ticker	(Local)	(US\$m)	2021E	2022E	2023E	2021E	2022E	2023E	2021E	2022E	2023E
Chinese online job seeking												
Kanzhun Ltd	BZ US	35.69	14,596	150.3	56.1	26.0	21.5	11.6	7.4	111.5	44.7	20.2
Tongdao Liepin Group	6100 HK	10.5	705	17.0	11.6	8.5	1.8	1.4	1.2	6.3	4.8	3.7
51Job Inc	JOBS US	67.81	4,573	NM	NM	NM	NM	NM	NM	NM	NM	NM
Sector			19,875	111.0	41.6	19.4	15.9	8.6	5.5	82.1	33.0	14.9
Chinese staffing & RPO												
Beijing Career International	300662 CH	51.61	1,577	41.7	32.2	25.5	1.7	1.2	0.9	27.6	22.7	18.1
Renrui Human Resources	6919 HK	9.35	188	8.6	6.8	6.1	0.3	0.3	0.3	1.6	1.3	1.2
ManpowerGroup China Ltd	2180 HK	9.15	244	11.0	9.1	7.6	0.4	0.3	0.3	3.4	2.8	2.4
Sector			2,008	34.9	27.0	21.5	1.4	1.0	0.8	22.3	18.3	14.6
Global online job seeking												
Recruit Holdings Co Ltd	6098 JT	6617	100,656	46.9	42.9	35.9	4.2	3.9	3.6	26.7	24.7	21.2
ZipRecruiter Inc	ZIP US	27.49	3,164	NM	114.2	44.0	4.7	4.0	3.4	78.5	36.1	24.7
SEEK Ltd	SEK AU	30.88	7,919	56.2	45.3	38.5	11.2	10.1	9.4	27.3	24.1	21.9
Upwork Inc	UPWK US	46.8	5,972	NM	279.1	66.7	12.1	9.7	7.9	290.7	130.2	61.1
Fiverr International Ltd	FVRR US	175.71	6,422	NM	258.2	171.9	22.3	17.0	13.3	433.7	142.0	79.2
Sector			124,133	41.6	67.3	44.8	6.0	5.3	4.7	61.8	36.1	26.3
Global staffing solutions												
ManpowerGroup Inc	MAN US	113.54	6,158	15.7	13.2	11.4	0.9	0.3	0.3	0.3	9.1	7.7
Adecco Group AG	ADEN SW	48.53	8,778	12.3	10.7	9.8	1.1	0.4	0.3	0.3	8.2	7.2
Randstad NV	RAND NA	61.52	13,069	15.2	13.6	12.4	1.4	0.5	0.5	0.4	8.6	8.2
Korn Ferry	KFY US	77.2	4,208	16.6	17.0	15.2	3.5	1.8	1.7	1.6	8.9	8.9
Heidrick & Struggles	HSII US	48.85	954	13.8	14.1	12.4	2.5	1.0	1.0	1.0	6.6	6.6
Hays PLC	HAS LN	163.6	3,739	23.7	18.3	14.5	0.9	0.4	0.4	0.4	11.1	9.2
Sector			36,906	15.6	13.7	12.2	1.5	0.6	0.5	0.5	8.8	8.0
China SaaS/PaaS												
Agora Inc	API US	27.46	3,182	NM	NM	NM	NM	19.8	16.1	11.9	NM	NM
Weimob Inc	2013 HK	11.48	3,810	NM	NM	127.0	NM	8.9	6.9	5.3	NM	522.5
China Youzan Ltd	8083 HK	1.04	2,306	NM	NM	NM	NM	8.0	5.9	4.3	NM	NM
Glodon Co Ltd	002410	65.67	12,092	116.8	81.1	58.1	2.8	15.3	12.6	10.5	97.0	65.4
Ming Yuan Cloud	909 HK	27.1	6,852	120.0	91.0	55.0	2.5	18.5	13.4	9.7	102.3	72.5
KE Holdings Inc	BEKE US	19.15	22,806	49.7	25.3	17.8	0.7	1.9	1.6	1.4	29.7	14.2
Sector			51,048	66.0	42.7	38.6	1.3	9.2	7.3	5.7	50.0	70.6
Global SaaS/PaaS												
salesforce.com Inc	CRM US	274.58	268,814	62.6	56.2	45.0	3.5	10.2	8.5	7.2	35.5	29.3
Twilio Inc	TWLO US	324.17	57,427	NM	6677.5	442.7	NM	21.4	16.4	12.5	232.9	181.2
Shopify Inc	SHOP US	1398.5	175,014	211.2	210.2	135.5	8.5	37.9	28.4	21.2	225.2	205.8
Zoom	ZM US	256.27	76,145	51.4	50.7	42.2	5.0	19.0	16.1	13.5	44.5	41.5
Workday Inc	WDAY US	257.86	63,949	66.3	65.8	49.0	4.0	12.5	10.5	8.8	44.4	41.2
Atlassian Corp PLC	TEAM US	392.98	98,999	236.6	177.9	131.9	7.0	39.0	31.7	24.6	153.6	114.0
Paylocity Holding Corp	PCTY US	280.47	15,314	120.8	97.1	75.9	4.6	19.3	15.8	12.8	72.2	57.3
HubSpot Inc	HUBS US	683.63	32,134	375.8	251.3	170.2	7.7	25.3	19.8	15.9	203.7	153.9
Anaplan Inc	PLAN US	60.81	8,889	NM	NM	670.8	NM	15.5	12.4	9.7	NM	NM
Cornerstone OnDemand	CSOD US	57.37	3,836	21.5	19.1	17.9	2.2	4.4	4.1	3.8	15.8	14.7
Blackline Inc	BL US	118.65	6,930	237.0	198.1	97.5	4.2	16.4	13.6	11.0	134.0	100.2
Xero Ltd	XRO AU	139.28	15,100	34009.4	402.9	180.4	26.7	19.9	16.0	13.2	107.3	73.1
Sector			822,550	747.2	581.3	117.6	5.5	22.4	17.7	13.9	114.3	96.1

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

See the last page of the report for important disclosures

## Annual Income Statement

Fiscal year ends-31-Dec

**Exhibit 21. Annual income statement (Report Currency: RMB)**

(RMB mn)	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
Revenues	999	1,944	4,442	7,045	11,914	17,101	23,535	31,553
Cost of revenues	(138)	(240)	(548)	(874)	(2,242)	(4,098)	(6,658)	(10,558)
Gross profit	861	1,704	3,894	6,171	9,672	13,002	16,877	20,994
Gross margin	86%	88%	88%	88%	81%	76%	72%	67%
Research and development expenses	(326)	(513)	(880)	(1,179)	(1,828)	(2,390)	(2,976)	(3,579)
Selling and marketing expenses	(917)	(1,348)	(2,240)	(3,272)	(5,324)	(7,349)	(9,722)	(12,154)
General and Administrative Expenses	(133)	(797)	(1,997)	(704)	(1,072)	(1,368)	(1,647)	(2,051)
Share-based compensation expense	(34)	(674)	(1,882)	(352)	(596)	(855)	(1,177)	(1,578)
Income from operations, GAAP	(512)	(945)	(1,208)	1,035	1,457	1,899	2,534	3,211
Operating margin, GAAP	-51%	-49%	-27%	15%	12%	11%	11%	10%
Income from operations, non-GAAP	(478)	(271)	674	1,387	2,053	2,754	3,711	4,789
Operating margin, non-GAAP	-48%	-14%	15%	20%	17%	16%	16%	15%
Net income (loss), GAAP	(502)	(942)	(1,183)	1,035	1,457	1,899	2,218	2,810
Net margin, GAAP	-50%	-48%	-27%	15%	12%	11%	9%	9%
Net income (loss), non-GAAP	(468)	(268)	699	1,387	2,053	2,754	3,394	4,388
Net margin, non-GAAP	-47%	-14%	16%	20%	17%	16%	14%	14%

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)



# Annual Balance Sheet

Fiscal year ends-31-Dec

**Exhibit 22. Annual Balance Sheet (Report Currency: RMB)**

(RMB mn)	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
Cash and cash equivalent	407	3,998	14,516	17,756	22,644	28,978	36,827	46,687
Short-term investments	1,142	536	536	536	536	536	536	536
Accounts receivable	2	7	16	26	43	62	86	116
Amounts due from related parties	38	41	91	142	235	331	447	588
Prepayments and other current assets	119	165	393	393	393	393	393	393
Non-current assets:	171	336	445	547	642	728	804	869
Property, equipment and software, net	72	191	300	402	497	584	660	725
Intangible assets, net	1	1	0	0	0	0	0	0
Right-of-use assets, net	98	144	144	144	144	144	144	144
Total Assets:	1,879	5,083	15,997	19,400	24,494	31,030	39,095	49,190
Accounts payable	43	42	88	130	310	530	808	1,208
Deferred revenue	615	1,200	2,492	3,979	6,322	9,443	13,413	18,309
Other payable and accrued liabilities	293	418	1,119	1,605	2,124	2,564	2,986	3,397
Operating lease liabilities, current	57	60	60	60	60	60	60	60
Non-current Liabilities:	38	76	76	76	76	76	76	76
Operating lease liabilities, non-current	38	76	76	76	76	76	76	76
Total Liabilities:	1,046	1,796	3,834	5,850	8,891	12,672	17,343	23,051
Mezzanine equity:	2,494	5,587	0	0	0	0	0	0
Shareholders' deficit	(1,661)	(2,300)	12,163	13,550	15,603	18,357	21,752	26,139
Ordinary shares	0	0	1	1	1	1	1	1
Accumulated other comprehensive income/(loss)	19	(130)	1,752	2,104	2,700	3,555	4,732	6,309
Accumulated deficit	(1,680)	(2,622)	(3,806)	(2,771)	(1,314)	586	2,803	5,613
Total Liabilities, Mezzanine equity & shareholder deficit	1,879	5,083	15,997	19,400	24,494	31,030	39,095	49,190

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

## Annual Cash Flow Statement

Fiscal year ends-31-Dec

Exhibit 23. Annual Cash Flow Statement (Report Currency: RMB)

(RMB mn)	2019A	2020A	2021E	2022E	2023E	2024E	2025E	2026E
Net loss	(502)	(942)	(1,183)	1,035	1,457	1,899	2,218	2,810
Adjustment to net cash from operating activities								
Share-based compensation	34	124	1,882	352	596	855	1,177	1,578
Issuance of Class B ordinary shares to TECHWOLF limited	0	533	0	0	0	0	0	0
Depreciation and amortization	18	41	52	84	121	164	214	272
Loss from disposal of PP&E	0	0	0	0	0	0	0	0
Foreign exchange (gain)/loss	(0)	5	0	0	0	0	0	0
Amortization of right-of-use assets	39	67	0	0	0	0	0	0
Change in operating assets and liabilities:	305	567	1,750	1,956	2,930	3,666	4,531	5,537
Net cash from operating activities	(106)	396	2,500	3,426	5,104	6,584	8,139	10,196
Purchase of property, equipment and software	(64)	(138)	(160)	(186)	(216)	(250)	(290)	(337)
Proceeds from disposal of PP&E	0	0	0	0	0	0	0	0
Purchase of short-term investments	(1,172)	(1,834)	0	0	0	0	0	0
Proceeds from maturity of short-term investments	12	2,440	0	0	0	0	0	0
Net cash from investing activities	(1,224)	467	(160)	(186)	(216)	(250)	(290)	(337)
Proceeds from issuance of preferred shares	993	2,803	0	0	0	0	0	0
Proceeds from issuance of Class A shares	0	79	8,177	0	0	0	0	0
Proceeds from borrowings	30	0	0	0	0	0	0	0
Repayment of borrowings	(30)	0	0	0	0	0	0	0
Repurchase of TECHWOLF shares	0	0	0	0	0	0	0	0
Net cash from financing activities	993	2,882	8,177	0	0	0	0	0
Effect of FX	43	(154)	0	0	0	0	0	0
Net (decrease)/increase in cash and cash equivalents	(293)	3,591	10,517	3,240	4,888	6,334	7,849	9,860
Cash and cash equivalents at beginning of year	700	407	3,998	14,516	17,756	22,644	28,978	36,827
Cash and cash equivalents at end of year	407	3,998	14,516	17,756	22,644	28,978	36,827	46,687

Source: Kanzhun Ltd., Blue Lotus (as of 8 October, 2021)

See the last page of the report for important disclosures

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