China Internet & New Media

EQUITY: INTERNET & NEW MEDIA

Takeaways from DeepSeek expert call

Beyond model intelligence, cost efficiency and ecosystems gain in importance

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We recently hosted an industry expert to discuss DeepSeek's (unlisted) model roadmap, competitive positioning and the evolving Chinese LLM landscape. The key takeaway is that DeepSeek aims to differentiate itself through providing competitive cost performance models. According to the expert, DeepSeek adopts a dual-track strategy, with larger flagship models pushing the intelligence frontier, while cost-efficient Flash models maximize its reach on appealing cost performance.

Importantly, the expert believes beyond architecture innovation, DeepSeek's competitive strength lies in its superior expertise on model infrastructure and deployment optimization, which underpins its competitive API pricing. Its dual peak/off-peak pricing mechanism is designed to improve compute utilization while balancing price competitiveness and profitability. On the infrastructure side, the expert expects domestic AI accelerators to gain faster adoption in inference than in large-scale pre-training, where interconnect efficiency, software compatibility and cluster stability remain key challenges for domestic AI chips and clusters. Looking ahead, competition among Chinese LLM providers is likely to go beyond model intelligence with cost efficiency and ecosystem becoming increasingly important. The expert believes this trend will particularly benefit three players – DeepSeek backed by its competitive inference economics, Moonshot AI (unlisted) due to its superior architectural innovations and complex reasoning capabilities, and ByteDance (unlisted) which has extensive distribution channels and integrated application ecosystems.

DeepSeek intends to provide competitive cost performance models

According to the expert, DeepSeek's current API usage and revenue are primarily driven by two models, V4.1 Flash and V4 Pro, with V4.1 Flash contributing the majority of API revenue. Flash model is optimized for cost efficiency and performs strongly in coding, software engineering and relatively standardized agent tasks, while the larger Pro model remains better suited to more complex long-horizon tasks.

The expert expects the "large model first, efficient model follows" pattern to continue, with larger models pushing the intelligence frontier and smaller models using post-training to capture much of that capability at substantially lower inference cost. According to the expert, DeepSeek is developing a next-generation flagship model potentially featuring 1.5-2.0x the parameters of the current V4 Pro, targeting further improvements in complex reasoning and long-horizon agentic tasks. In parallel, DeepSeek is expected to continue refining smaller Flash models through larger-scale post-training and reinforcement learning, according to the expert. The expert also expects deeper integration between foundation models and Agent Harness capabilities to improve real-world task execution.

The expert argued that pre-training scaling is no longer the sole or necessarily the most important source of differentiation. Instead, the industry is increasingly relying on architectural innovations, post-training and engineering improvements to raise model capability while keeping serving costs manageable. In the expert's view, a model with strong headline intelligence but prohibitively high inference cost has limited commercial value. DeepSeek's competitive strategy therefore centers on combining cost leadership with strong performance in targeted areas. This approach could help the company attract users, scale API consumption and strengthen its competitive positioning.

Domestic compute continues to face challenges in pre-training large-scale applications

This expert echoed the same message delivered by *another LLM expert* we invited before about the application of domestic accelerators in LLM development. That is, domestic AI accelerators continue to face significant challenges in large-scale pre-

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training, with substitution likely to progress faster in inference. According to the expert, DeepSeek currently uses domestic accelerators primarily for adaptation testing and limited-scale training, while relying predominantly on NVIDIA (NVDA US, Not rated) GPUs for large-scale pre-training.

Beyond the performance gap at the individual chip level, domestic AI computing clusters continue to face challenges in interconnect bandwidth, communication efficiency and system stability, during the pre-training phase. Moreover, mainstream training frameworks and computational kernels have been extensively optimized around NVIDIA's CUDA ecosystem. Migrating to domestic accelerators, therefore, requires substantial code rewriting, kernel redevelopment and framework adaptation, resulting in additional engineering efforts and longer development cycles. These challenges are further compounded by the fragmented software ecosystems across domestic chip vendors, whose architectures and software stacks are often incompatible, leading to duplicated development efforts and higher adaptation costs. The expert also highlighted the additional complexity of heterogeneous training clusters combining different accelerator architectures, which can increase communication and synchronization overhead, raise failure risks and reduce overall cluster stability and training efficiency.

Domestic AI chip landscape: The expert believes that Huawei (unlisted) remains a leading domestic AI accelerator platform, supported by its scale and relatively mature ecosystem. Excluding Huawei, the expert places Cambricon (688256 CH, Not rated) and Hygon (688041 CH, Not rated) in the first tier, citing Cambricon's relatively strong inference capabilities and enterprise adoption, alongside Hygon's CPU+DCU architecture and software compatibility. Among internet companies' in-house chip developers, the expert noted Alibaba's (BABA US, Buy) T-Head (unlisted) competes with tier 1 players in inference efficiency, although its chips are primarily deployed internally, while positioning Baidu's (BIDU US, Buy) Kunlunxin (unlisted) closer to tier 2.

DeepSeek’s moat: engineering and infrastructure optimization matter as much as architectural innovation

The expert acknowledged that most major architectural innovations across Chinese LLMs are now open source and can theoretically be replicated by competitors. However, he argued that the more difficult-to-replicate advantages lies in infra optimization, domestic-chip adaptation and accumulated deployment experience. These capabilities require substantial engineering resources and operational experience, making them harder to replicate through open-source model releases alone.

While leading international players, including OpenAI (unlisted) and Anthropic (unlisted), have substantially reduced API prices for their lightweight models, DeepSeek V4.1 Flash maintains particularly attractive pricing for cached inputs. According to the expert, this advantage reflects a combination of architectural innovation and inference infrastructure optimization. In particular, DeepSeek's MLA-based caching architecture enables efficient reuse of previously computed context, avoiding redundant computation, while its latest KV-cache optimization has reduced HBM requirements to one-quarter and SSD storage requirements to one-eighth of the previous generation. Together with improvements in inference efficiency and domestic-chip adaptation, these innovations help lower the cost of serving repeated context, particularly for long-context and agentic workloads.

Facing intensifying price competition in the LLM industry, DeepSeek adopts a peak/off-peak pricing mechanism, offering a 50% discount during off-peak hours. According to the expert, this approach partly reflects fluctuations in infrastructure costs, particularly given the company's reliance on third-party cloud computing resources. Besides, this flexible pricing strategy could help DeepSeek maintain attractive pricing for cost-sensitive developers and high-volume agentic workloads, while maximizing revenue generation from its available compute capacity and supporting its margin.

The expert expects China's LLM market to remain competitive, with differentiation going beyond model intelligence with cost efficiency and ecosystem reach and strengths in specific applications. Among independent LLM labs, the expert favors DeepSeek for its superior cost efficiency, and Moonshot AI (Kimi) for its architectural innovations with strong long-context and complex reasoning capabilities. The expert also acknowledges the structural advantages enjoyed by major Chinese internet platforms, particularly ByteDance, which has extensive consumer reach, established distribution channels and an integrated product ecosystem. According to him, these advantages could facilitate faster model adoption and then generate valuable usage data.

Appendix A-1

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