

DeepSeek's \$20B Problem: When Your Best People Walk Out the Door

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1. Explanation

DeepSeek shocked the world by building a ChatGPT rival on a shoestring – but now it's raising \$20 billion, not for compute or chips, but to stop its own engineers from leaving.

What's Going On?

DeepSeek, the Chinese AI startup that stunned Silicon Valley last year with its R1 model, is raising outside money for the first time. Founder Liang Wenfeng had previously bankrolled everything himself using profits from his quantitative trading firm, refusing to take outside capital.

The new fundraising targets a valuation north of \$20 billion – but the actual cash raised will only be a few hundred million. The point isn't the money. It's the valuation itself: DeepSeek needs an official price tag so its employees' stock options actually mean something. Several star researchers have already defected to ByteDance and Tencent, where shares come with a clear market value.

How To Think About It

This isn't a normal capital raise. Think of it less as fuel for the engine and more as a price-tag-printing exercise. Two parallels make this click:

- It's like a top high-school athlete being recruited: rival schools offer guaranteed scholarships (cash valuations), while DeepSeek offers 'trust me, you'll love it here' (unpriced equity). Even loyal players eventually take the certain offer.
- It's like a house someone owns mortgage-free in a hot neighbourhood. They might 'know' it's worth a million dollars, but until a buyer signs a contract, that million is theoretical. DeepSeek's stock options are the same – paper wealth without a fundraising round to mint an official price.

Key Things To Know

- Rivals are massively more valuable: Moonshot (~\$18B), MiniMax (~\$37B), and Zhipu (~\$56B) all have clear valuations DeepSeek lacks (MiniMax and Zhipu went public in Hong Kong in January 2026).
- Stock options usually make up the majority of an AI researcher's compensation – without a valuation, those options are basically lottery tickets.
- Two key defections: Guo Daya, a lead author on the R1 paper, left for ByteDance; Wang Bingxuan, a model-training veteran, joined Tencent.
- Liang reportedly cares more about pure research than commercialisation, which makes traditional VCs nervous – there's no clear business model.
- Most people assume DeepSeek's challenge is chips or US export controls. The actual bottleneck right now is human talent retention.

Why It Matters

If you're considering a career in tech, AI, or finance, this story is a live case study in something they don't teach in econ class: compensation is psychological, not just numerical. The 'best' technical job at the 'most exciting' company can lose to a rival simply because the rival's equity has a public price. As AI reshapes which jobs exist by the time you graduate, understanding how talent flows between

companies – and why – matters as much as understanding the technology itself.

The Bigger Picture

DeepSeek's dilemma signals that China's AI race has entered a mature, expensive phase: the early ideological stage (build cool stuff cheaply) is colliding with the talent-war stage (pay people what the market says they're worth). Watch for two second-order effects: a wave of similar 'defensive' fundraises across Chinese AI labs, and growing pressure on idealistic founders to commercialise faster. The deeper question is whether pure-research culture can survive when your competitors can outbid you in cash that's actually liquid.

2. Key Terms Glossary

Stock options

The right to buy company shares at a fixed price later. Valuable only if the company's actual share price rises above that fixed price – so a clear valuation is essential to know what they're worth.

Valuation

The official price tag put on a private company, usually set when investors buy a stake. It determines what employee shares and options are theoretically worth.

Strategic investor

An investor (often another company) that invests not just for financial returns but to gain business synergies – like a cloud provider investing in an AI firm that will use its servers.

Quantitative trading firm

A finance company that uses mathematical models and algorithms to trade stocks and other assets automatically. Liang's firm generated the cash that originally funded DeepSeek.

Share buyback

When a company repurchases its own shares from existing holders, often used to return cash to shareholders or – as here – to set a reference price for the stock.

Free cash flow

The cash a business generates after paying its operating costs and investments. Companies with strong free cash flow don't need outside investors as urgently.

Poaching

Recruiting talented employees away from a competitor, typically by offering better pay, equity, or working conditions.

Commercialisation

Turning research or technology into revenue-generating products. Liang has resisted this, prioritising scientific progress over making money quickly.

3. Reading Comprehension Quiz

Circle the best answer for each question.

- Q1.** The passage most directly argues that DeepSeek's fundraising is motivated by which of the following?
- A) An urgent need to fund expensive computing infrastructure
 - B) Pressure from existing investors to deliver financial returns
 - C) The need to set a valuation that retains key researchers
 - D) A strategic shift toward commercialising its R1 model
- Q2.** Which choice best states the central idea of the passage?
- A) DeepSeek's R1 model has fallen behind ChatGPT in capability
 - B) An idealistic founder is reluctantly adapting to talent market pressures
 - C) Chinese AI startups are losing the global race to American firms
 - D) Quantitative trading firms make poor parents for AI labs
- Q3.** According to the passage, why has DeepSeek struggled to attract traditional financial investors?
- A) Its researchers have publicly criticised the company's direction
 - B) It lacks a clear business model and shares minimal financial information
 - C) Its founder has demanded a valuation higher than peers receive
 - D) Chinese regulators have blocked foreign investment in AI firms
- Q4.** As used in the passage, the word 'assuage' most nearly means:
- A) Reward financially for past work
 - B) Calm the concerns of
 - C) Replace with new hires
 - D) Persuade to accept lower pay
- Q5.** As used in the passage, the word 'nominal' most nearly means:
- A) Officially named
 - B) Relatively small
 - C) Carefully calculated
 - D) Publicly announced
- Q6.** Which statement about AI researcher compensation can most reasonably be inferred from the passage?
- A) Cash salary is generally more important than equity to top researchers
 - B) The perceived value of equity depends heavily on having a benchmark valuation
 - C) Researchers prefer state-backed firms because of their stability
 - D) Chinese AI firms pay significantly less than American competitors
- Q7.** The passage suggests that Liang Wenfeng's leadership style has which effect on DeepSeek?
- A) It universally pleases researchers who value pure science
 - B) It creates both a distinctive culture and strategic vulnerabilities
 - C) It guarantees the company will never accept outside investment
 - D) It has caused the majority of senior researchers to resign

Q8. The author's tone toward DeepSeek's situation can best be described as:

- A)** Sceptical of the company's long-term survival
- B)** Openly critical of Liang's management decisions
- C)** Informative while acknowledging tensions in the strategy
- D)** Enthusiastic about the company's research breakthroughs

Q9. Which conclusion about DeepSeek's competitive position is best supported by the passage?

- A)** It will likely surpass Zhipu's \$58 billion valuation within a year
- B)** Its lower valuation puts it at a disadvantage in recruiting talent
- C)** It has stronger cash flow than any of its Chinese competitors
- D)** Its R1 model is now technically inferior to rival Chinese models

Q10. Which choice provides the best evidence for the answer to the previous question?

- A)** 'DeepSeek did not have as much free cash flow as its bigger competitors'
- B)** 'The amount raised was expected to be a nominal figure in the low hundreds of millions'
- C)** 'The lack of a clear valuation had put it at a disadvantage... against start-up peers too'
- D)** 'Most of the staff were dedicated to Liang's idealistic approach'

My Score: _____ / 10

4. Answer Key with Explanations

Q1. The passage most directly argues that DeepSeek's fundraising is motivated by which of the following?

Answer: C

The passage states the raise is 'mainly to assuage the company's researchers' and ensure stock options have a clear value. A is wrong (TRAP C: true that AI needs compute, but the passage explicitly says there was no urgent need for capital). SAT Tip: When a question asks for the 'primary' reason, look for language in the passage like 'mainly,' 'primarily,' or 'the goal is' – those signal the author's stated focus.

Q2. Which choice best states the central idea of the passage?

Answer: B

The passage centres on Liang's anti-fundraising stance being forced to bend because employees need a valuation to stay. C is wrong (TRAP C: a real-world debate, but the passage doesn't compare US and Chinese firms competitively). SAT Tip: Central-idea questions are about the whole passage, not one paragraph. Eliminate options that capture only a single detail or introduce outside debates the passage doesn't have.

Q3. According to the passage, why has DeepSeek struggled to attract traditional financial investors?

Answer: B

The passage states 'DeepSeek's lack of a business model could inhibit fundraising' and notes Liang shares only 'bare-minimum financial figures.' D is wrong (TRAP C: regulatory issues are real but never mentioned in the article). SAT Tip: 'According to the passage' questions require an answer that is literally supported by the text. If you can't point to a specific sentence, the option is probably wrong, no matter how plausible it sounds.

Q4. As used in the passage, the word 'assuage' most nearly means:

Answer: B

In context, the fundraising is meant to 'assuage' researchers worried that their stock options have no clear value – so it means to calm or reassure. A is wrong (TRAP B: uses passage vocabulary about pay, but 'assuage' specifically means to soothe, not to compensate). SAT Tip: On vocab-in-context, substitute each option back into the sentence – only the right answer keeps the original meaning intact.

Q5. As used in the passage, the word 'nominal' most nearly means:

Answer: B

The passage says the raise will be a 'nominal figure in the low hundreds of millions... less than the billions typically raised by peers' – so nominal means small or token-sized. A is wrong (TRAP B: 'nominal' commonly means 'in name only,' which is its everyday meaning, but the context here clearly contrasts the amount with much larger sums). SAT Tip: When a word has multiple meanings, the SAT usually tests the less common one. Trust the context, not your first instinct.

Q6. Which statement about AI researcher compensation can most reasonably be inferred from the passage?

Answer: B

The passage notes options are 'a large part, if not the majority' of pay and that DeepSeek's 'lack of a clear valuation' disadvantages it – implying equity's perceived worth depends on a market price. A is wrong (TRAP A: it reverses the passage's actual claim that equity dominates compensation). SAT Tip: For inference questions, the answer must follow from the passage but go slightly beyond it. Reject options that contradict the text or require outside

knowledge.

Q7. The passage suggests that Liang Wenfeng's leadership style has which effect on DeepSeek?

Answer: B

The passage describes the appealing 'flexible work environment' and 'research lab' culture but also shows defections and fundraising challenges resulting from Liang's approach – both sides. D is wrong (TRAP B: the passage explicitly says 'only a small number of researchers had left,' contradicting 'majority'). SAT Tip: Watch for absolute words like 'universally,' 'never,' 'majority,' or 'always' in answer choices. The SAT loves to trap you with extreme language that overshoots what the passage actually says.

Q8. The author's tone toward DeepSeek's situation can best be described as:

Answer: C

The author presents facts neutrally but highlights real tensions: Liang's idealism versus market pressures, talent loyalty versus defections. B is wrong (TRAP C: a critical take is plausible journalism, but the passage uses neutral phrasing like 'idealistic approach' rather than criticism). SAT Tip: For tone questions, focus on the author's word choices, not the topic's drama. A story about losing employees can still be told in a neutral, reportorial voice.

Q9. Which conclusion about DeepSeek's competitive position is best supported by the passage?

Answer: B

The passage explicitly states the lack of a clear valuation 'had put it at a disadvantage' against tech giants and startup peers. C is wrong (TRAP A: the passage says the opposite – DeepSeek has less free cash flow than competitors). SAT Tip: When passages give specific comparisons (e.g. 'less than,' 'at a disadvantage'), the correct answer usually paraphrases them directly. Don't pick options that flip the comparison.

Q10. Which choice provides the best evidence for the answer to the previous question?

Answer: C

Option C directly states the disadvantage in recruiting, supporting the previous answer about competitive position. A is wrong (TRAP B: it uses comparative language about competitors but addresses cash flow, not talent recruitment). SAT Tip: On evidence-pairing questions, find your previous answer's key phrase first ('disadvantage in recruiting talent'), then scan for the option that mirrors it most precisely. Don't be distracted by options that sound important but address a different point.