Content Generation
Investing in Online Content Aggregators
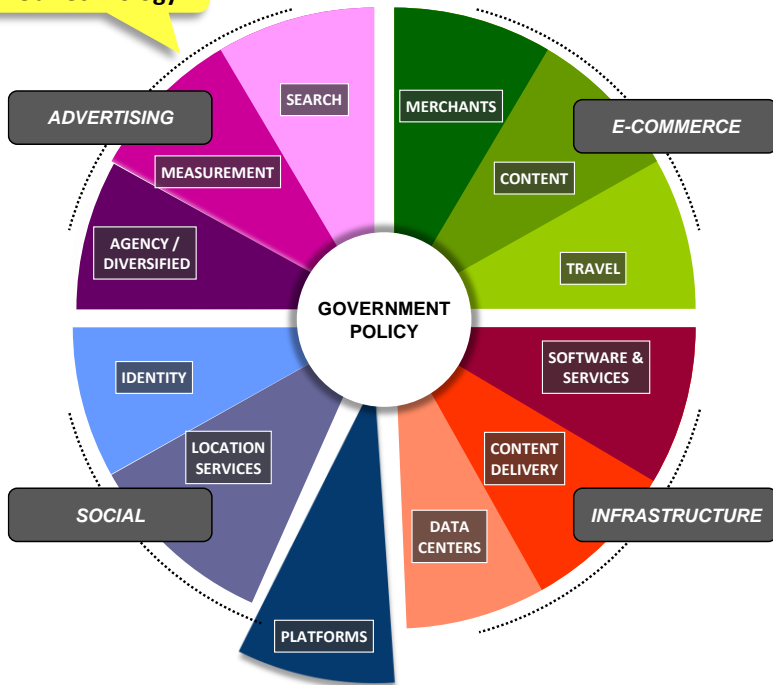
- July 11, 20XX -

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Investment Universe + Report Focus

Our Universe of Web Technology

Pie chart with GOVERNMENT POLICY at center, surrounded by segments:
- ADVERTISING: SEARCH, MEASUREMENT
- AGENCY / DIVERSIFIED
- E-COMMERCE: MERCHANTS, CONTENT, TRAVEL
- INFRASTRUCTURE: SOFTWARE & SERVICES, CONTENT DELIVERY, DATA CENTERS
- SOCIAL: IDENTITY, LOCATION SERVICES
- PLATFORMS

Platforms
- Blogging
- Gaming
- Networking
- Recruitment
- Content Sharing

Focus of this Report

User Content Generation Value Chain

Merchants/Retailers + Local Businesses		User Content Aggregation /Analysis		Audience/Customer
	Ads →		← Transactions	
	← Feedbacks		Reviews →	

Addressable Market of a) >10K brand manufacturers and retailers and b) 81mm local businesses globally.

Online: Yelp, Trip Advisor, Google Places, Angie's List, BazaarVoice, etc.
Traditional: Yellow Pages, Newspapers

Investing in User Content Generation:

- **Growth fueled by a shift in consumer behavior: a) time spent online vs. other media; and b) increased influence of reviews/ratings in purchase decisions**

- **Offers multiple levers of growth and value creation through advertisements and analytics**

Growth in Online Retail Sales – US

Underlying drivers contributing to online retail sales are a) increase in time spent on internet (121% from 'XX to 'XX)[1]; and b) changing consumer behavior towards reviews.
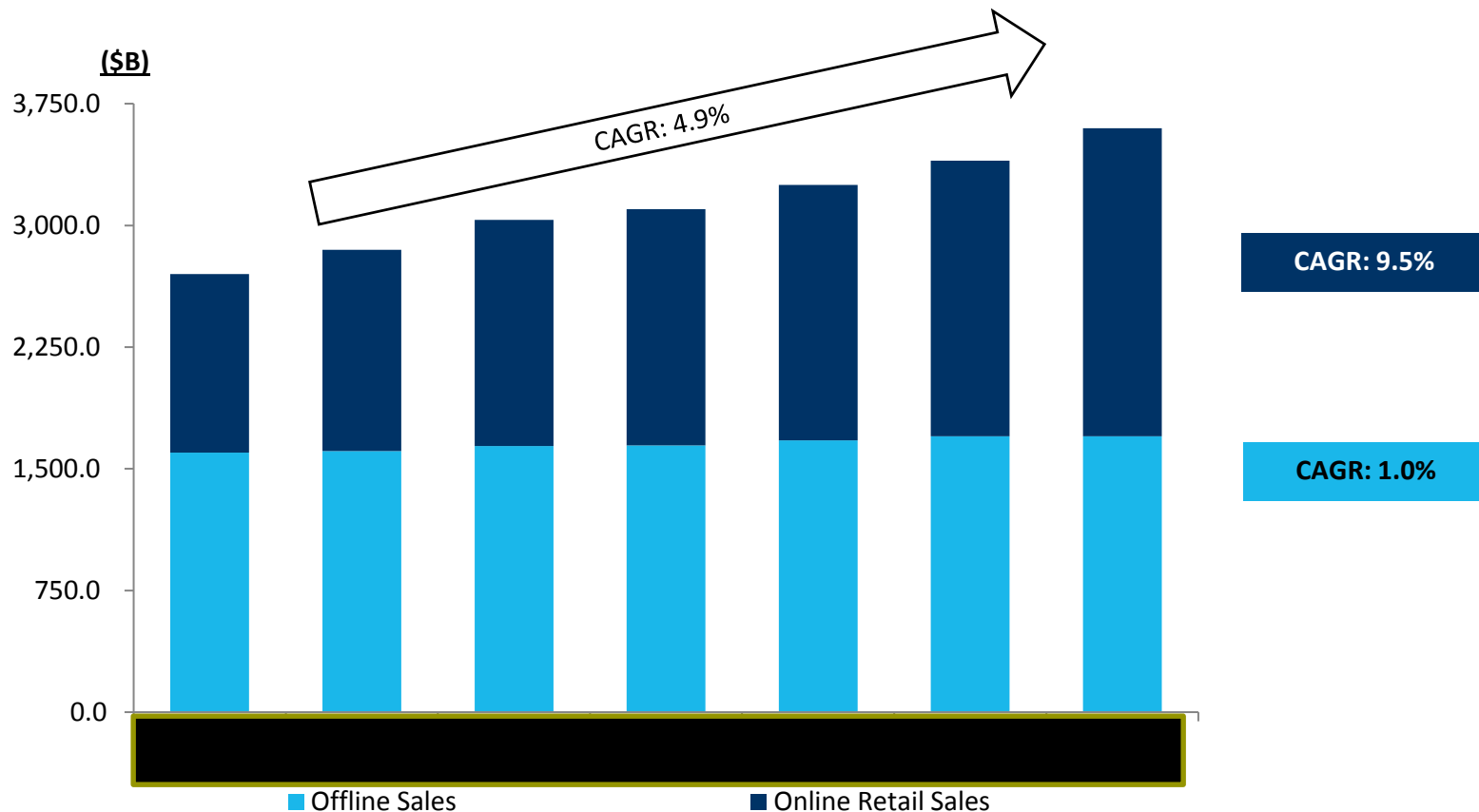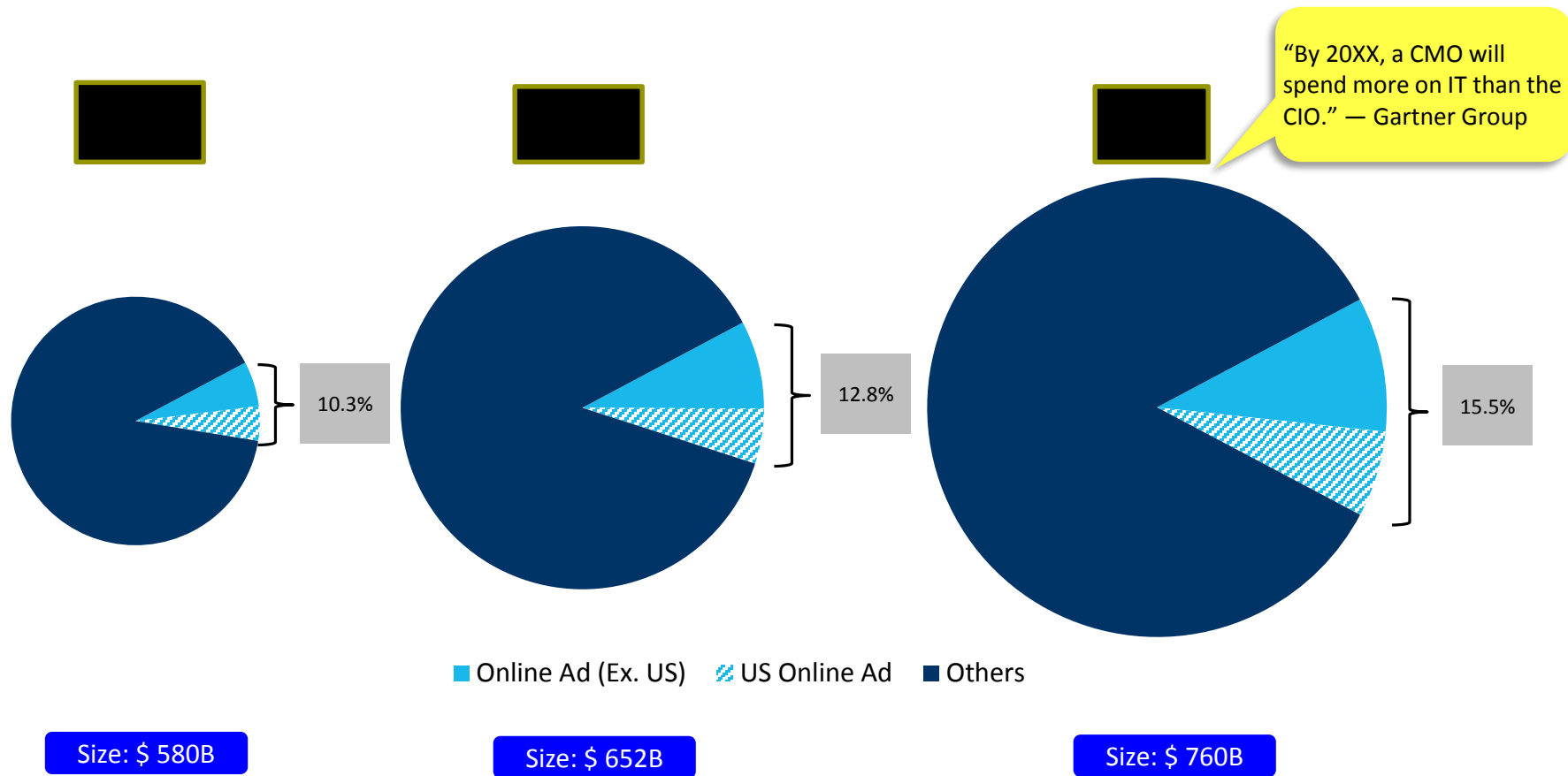

($B)

CAGR: 4.9%

CAGR: 9.5%

CAGR: 1.0%
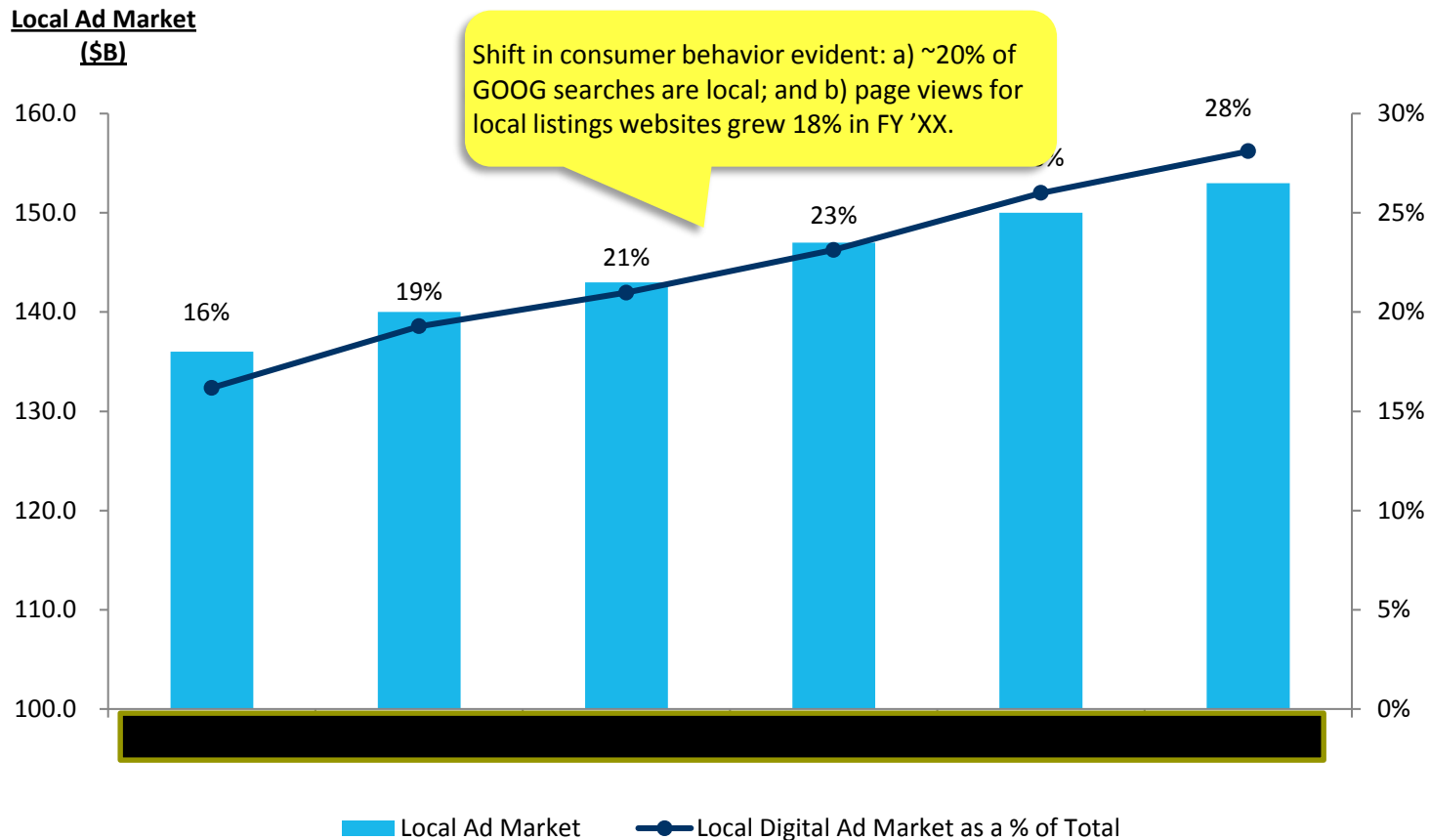
■ Offline Sales   ■ Online Retail Sales

Worldwide Advertising Landscape

Online retail sales growth will **drive growth in** the under-penetrated **online advertising market** – 2x faster than overall advertising spend.

"By 20XX, a CMO will spend more on IT than the CIO." — Gartner Group

10.3%

12.8%

15.5%

■ Online Ad (Ex. US) ▨ US Online Ad ■ Others

Size: $ 580B

Size: $ 652B

Size: $ 760B

Local Advertising – US

Online, local information consumption is being **driven by accessibility** (mobile devices) **and content quality** (versus traditional print sources; i.e. yellow pages and newspapers).

Local Ad Market ($B)

Shift in consumer behavior evident: a) ~20% of GOOG searches are local; and b) page views for local listings websites grew 18% in FY 'XX.

16%
19%
21%
23%
28%

Legend: ■ Local Ad Market ●— Local Digital Ad Market as a % of Total
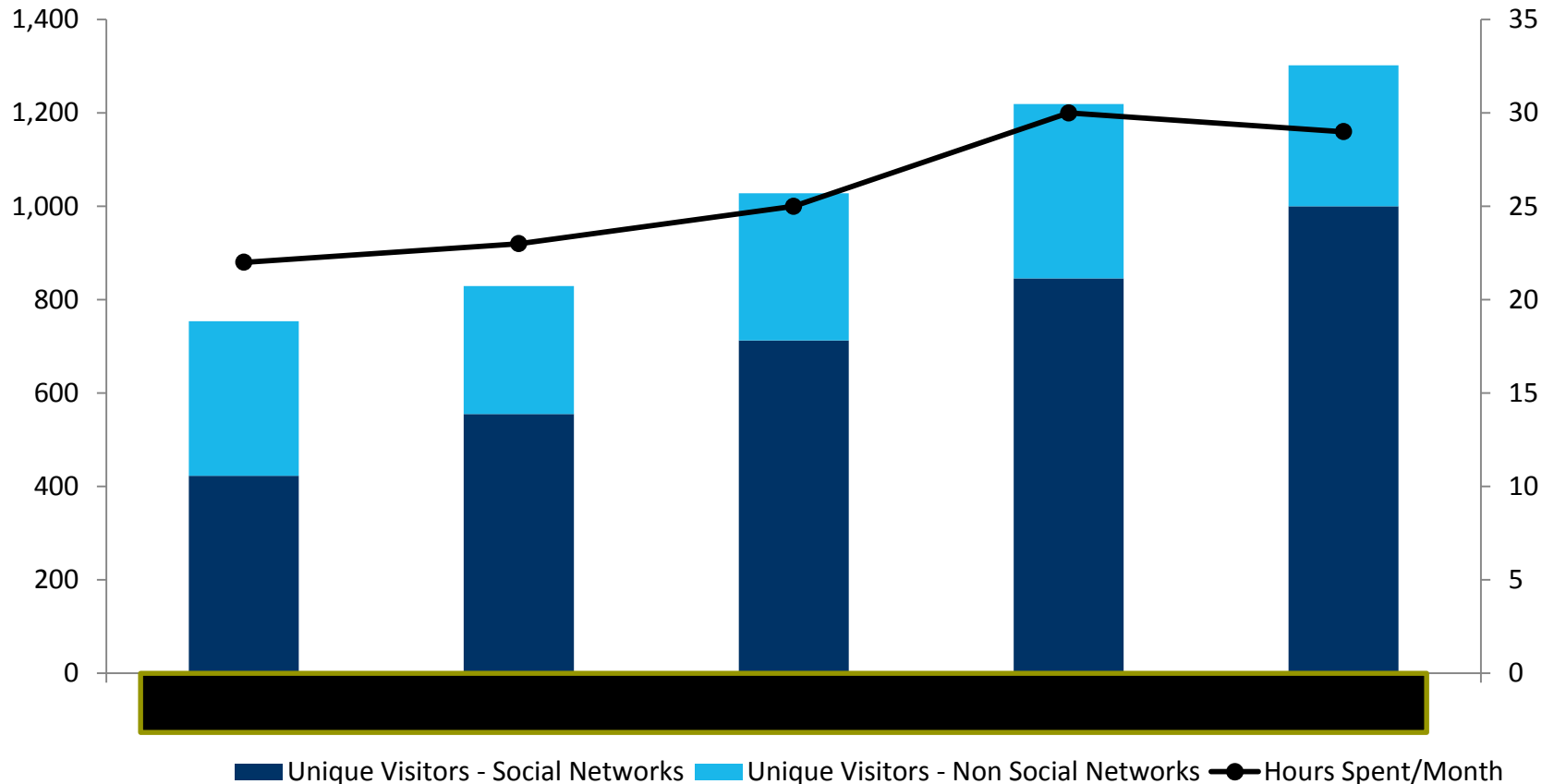
Online Time Spent Analysis

User traffic on social media platforms is increasing at a faster pace (CAGR of 24%) than other internet platforms (CAGR of 15%).
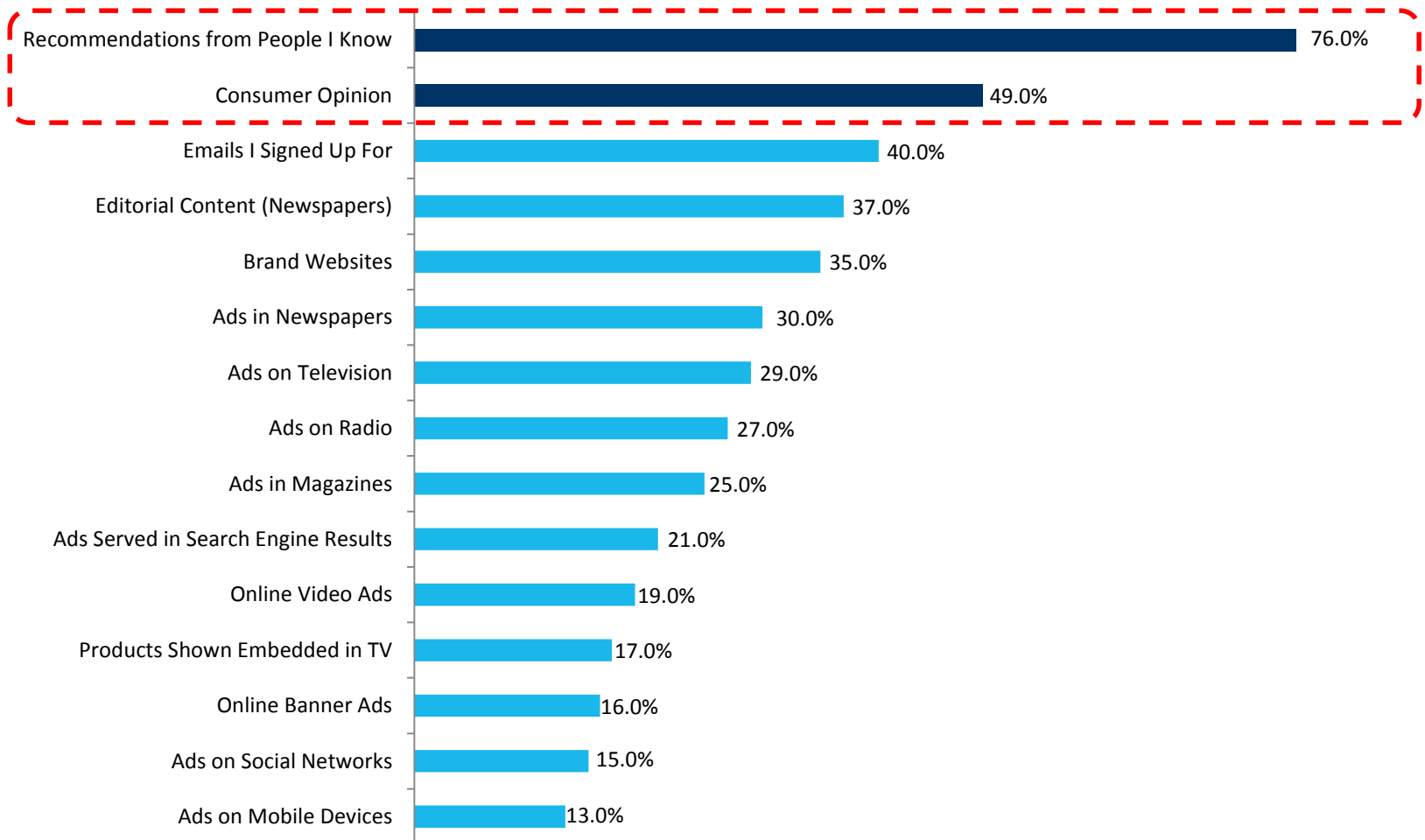
Internet Unique Visitors (mm)

Hours Spent on Internet ($B)

■ Unique Visitors - Social Networks   ■ Unique Visitors - Non Social Networks   ●— Hours Spent/Month

Changing Consumer Behavior

Element of objectivity makes both personal recommendations; and consumer opinion the preferred sources of information by consumers.

| Source	Percentage
Recommendations from People I Know	76.0%
Consumer Opinion	49.0%
Emails I Signed Up For	40.0%
Editorial Content (Newspapers)	37.0%
Brand Websites	35.0%
Ads in Newspapers	30.0%
Ads on Television	29.0%
Ads on Radio	27.0%
Ads in Magazines	25.0%
Ads Served in Search Engine Results	21.0%
Online Video Ads	19.0%
Products Shown Embedded in TV	17.0%
Online Banner Ads	16.0%
Ads on Social Networks	15.0%
Ads on Mobile Devices	13.0%

Social Marketing Spend

Both user traffic growth and changing consumer behavior (in purchase decisions) will drive incremental advertising dollars to social media.

Social Marketing as a % of Online Ad Spend

Source: eMarketer, April 20XX.
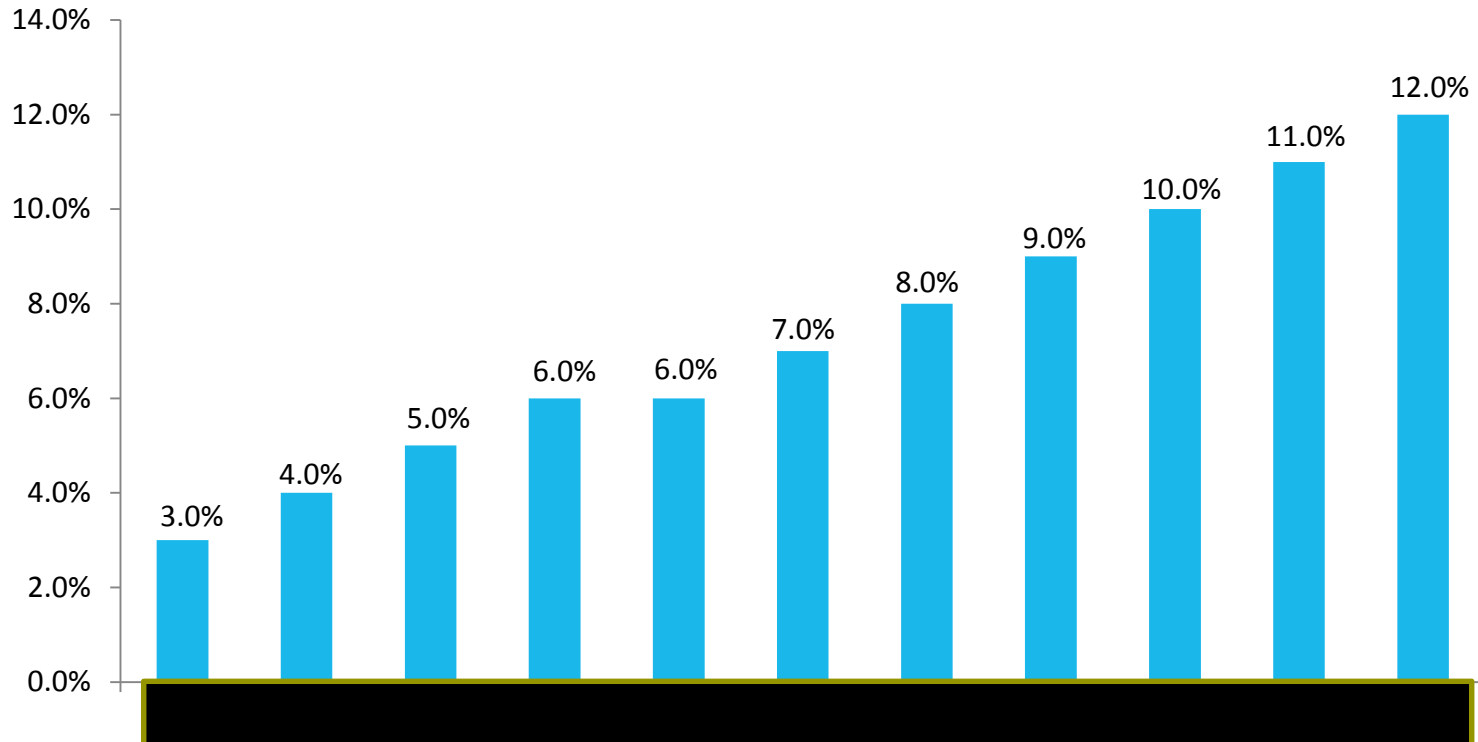
Smart Phones and Tablet Usage

Growing mobile usage, driven by location-based information and functionality (i.e. check-ins, nearby offers, and monocle[1]), **will facilitate content generation and review growth**.

Units (mm)

CAGR: 14.0%

CAGR: 5.1%

■ Smart Phones ■ Tablets
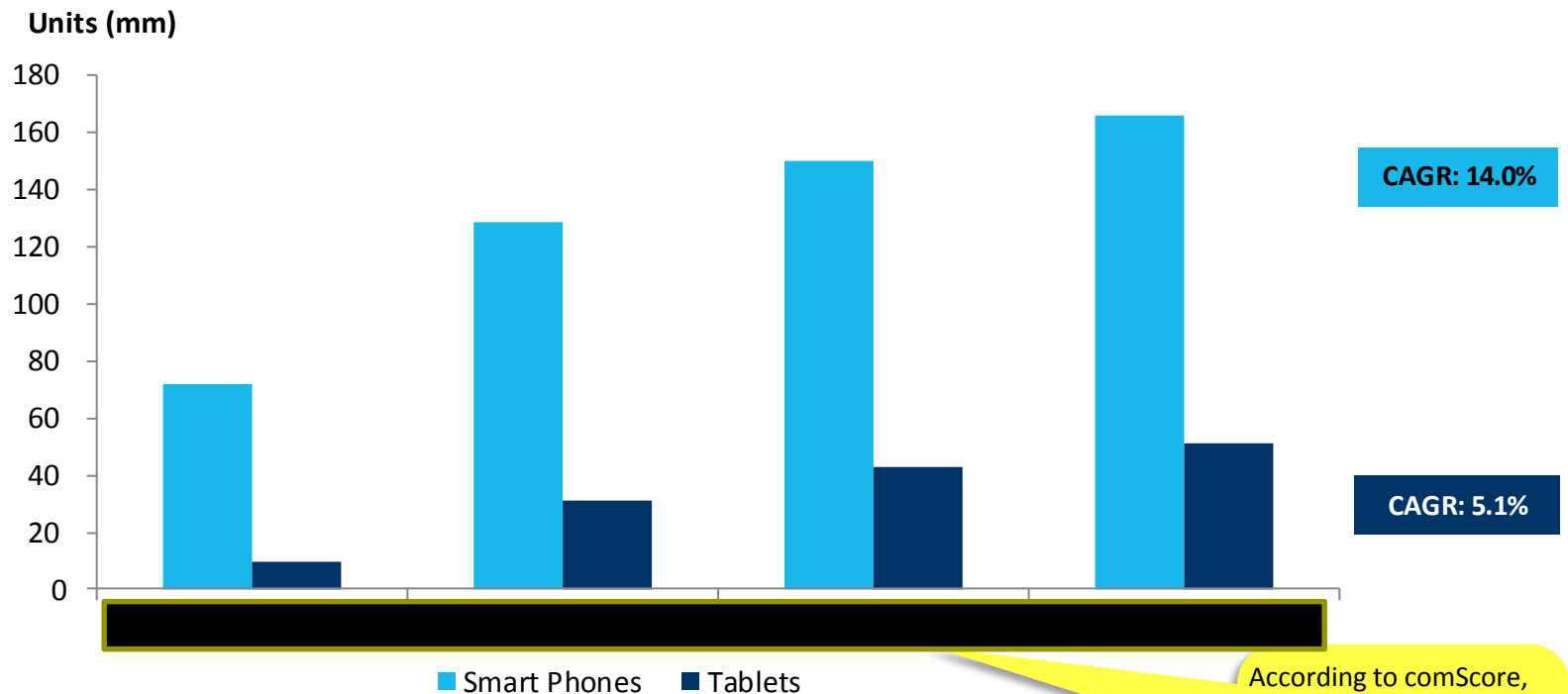
According to comScore, 47% of U.S. consumers have used a mobile device to check customer ratings or reviews while in a physical store
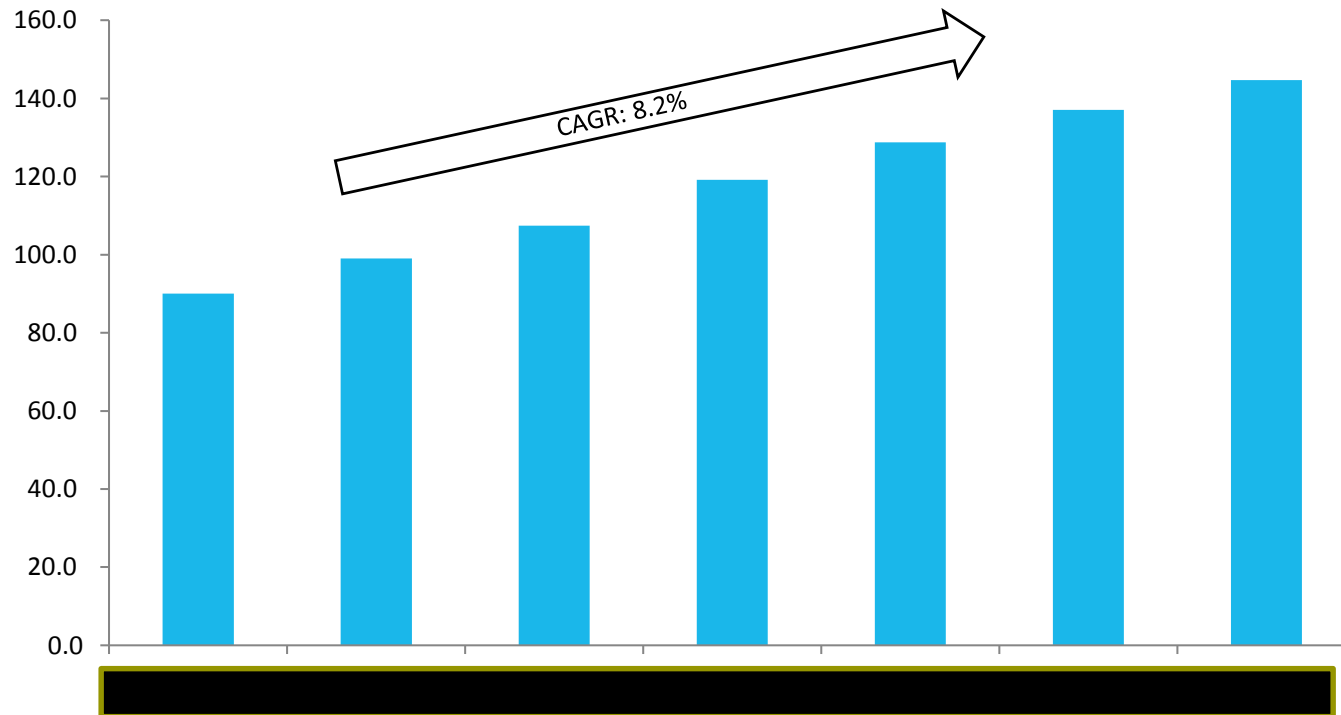
US Online Travel Market Opportunity

Increasing internet usage and **improved ecosystem** will **drive the growth** for US online travel market.
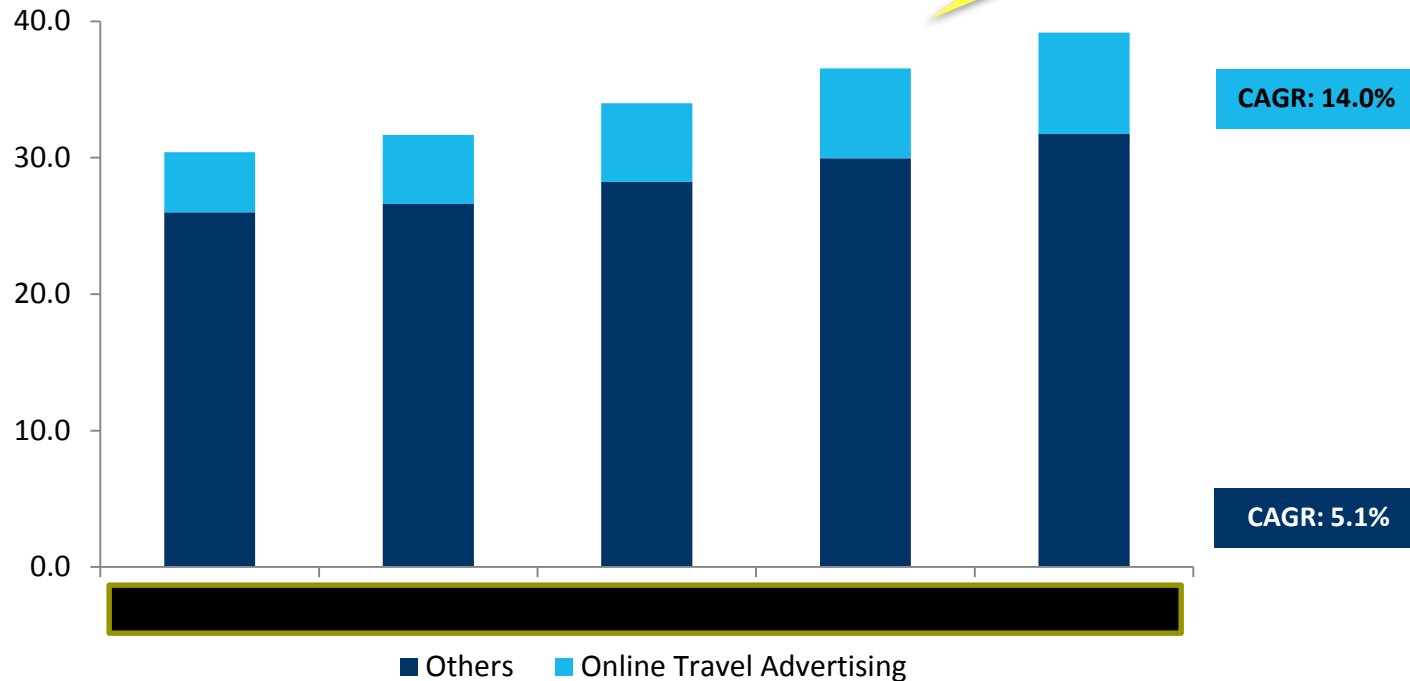

US Online Travel Sales ($B)

CAGR: 8.2%

Travel Advertising

Online travel advertising (**~16% share of travel-related advertising spend**) **is expected to continue** outpacing the growth of other marketing channels.

Market Opportunity
100mm+ US consumers spend time researching online and 90mm+ US consumers spend time booking travel.

Travel Advertising ($B)

CAGR: 14.0%

CAGR: 5.1%

■ Others ■ Online Travel Advertising

Source: IDC, December 20XX.

Worldwide BI[1] and Analytics Tools Market

Ability to extract value from the enormous amount of content amassed will fuel the growth of business intelligence and analytics markets.
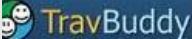
Revenues ($B)

CAGR: 9.2%
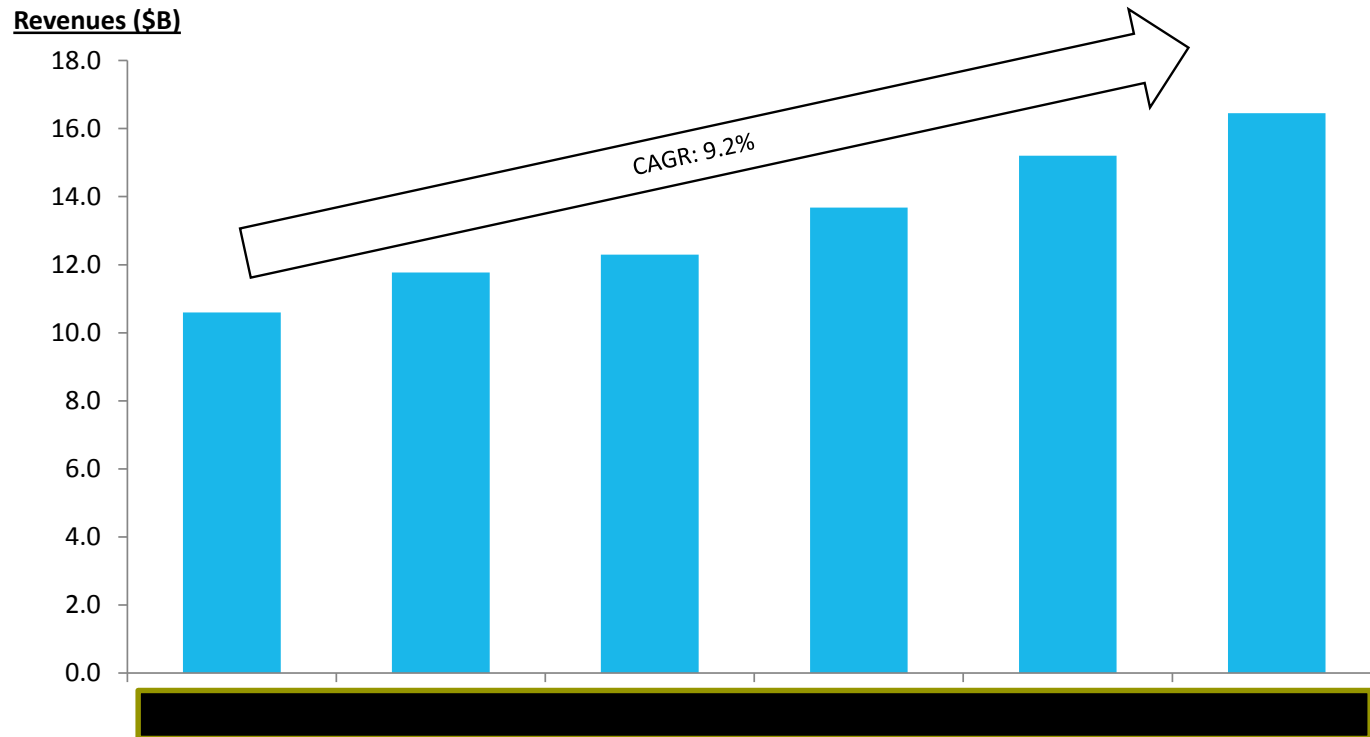
Competitive Analysis *(CONTINUES)*

Brand	Description	No. of Reviews	Clients/Businesses/ Memberships	MUV[1] (mm)	CPC/CPM
yelp	Founded in 20XX. Seeks to connect consumers with local businesses by providing deep directory content, user generated reviews, photos, and community tools	• Cumulative reviews: 27.6mm; (+59% Y/Y)	• Listed businesses: ~700K • "Active" businesses: ~27K	Site MUV: 71.4 Mobile MUV: 6.3	• CPC: ~$1.00-3.00 • CPM: ~$300-1,000 per month depending on impression levels
b:	Founded in 20XX. Allows sharing of user generated content through subscription based model that includes ratings, reviews, Q&As, recommendations, stories, videos, and photographs	• Impressions served: 125.4B in FY '12 • Since Inception: 330.2B	• Active clients: 790 • Pro-forma clients (including PowerReviews) ~1,900	NA	NA
tripadvisor	Founded in 20XX. #1 online travel company, empowering users to aggregate reviews and opinions	• Reviews and opinions: >60mm • Marketable base: >20mm	NA	50	• CPC: ~$0.50-1.50 • CPM: ~$16-22
Angie's list	Founded in 19XX. Platform to find the local service providers in >550 categories, like home repair, health care and auto service	• Reviews: 3.5mm	• Engaged service companies: ~500K • Paid memberships: ~1.2mm • Service providers paying to offer discounts: ~27K	2.4 (US)	NA
Google places	Launched in 20XX. Via Zagat, Google Places provides user-generated content based on ratings and reviews for restaurants	• Reviews: +5mm	NA	50	NA

Competitive Analysis *[CONTINUED]*

Brand	Description	No. of Reviews	Clients/Businesses/ Memberships	MUV[1] (mm)	CPC/CPM
TravBuddy	Founded in 20XX. Allows users to find travel partners, record travel experiences in travel blogs, or share travel tips with travel reviews	Reviews: 90K	Registered members: +1.7mm	1	NA
urbanspoon	Founded in 20XX. IAC owned restaurant information and recommendation service	NA	>1200 restaurants	Visits/month: 28 Mobile Visits: 6	NA
vitals	Founded in 20XX. Contains doctors' reviews and rating	NA	NA	3 (US)	NA
reevoo	Founded in 20XX. U.K. based company that allows users to review and rate products and services	Reviews displayed/month: 750mm Mobile reviews/month: 28mm	~150 retail and brand customers, primarily in Europe.	NA	NA

- We are **structurally positive** on the secular shift towards **social spending and computing**.

- We expect outperformance from businesses with: a) **monetization** strategies; b) **measurable ROI**; and c) ability to generate **organic traffic**

Content Aggregator Comps

Takeaways

- **Comps Selection**
  - Focusing on two key drivers of user generated content business – advertisements and analytics, we have considered TRIP and YELP (advertisement) and BV (analytics).

- **Key Metric(s)**
  - Number of Reviews/Unique Visitors:
    - Can company attract more users to write reviews, thus creating the "network" effect?
  - Clients/Local Businesses:
    - Can company make complete use of reviews to effectively fetch more businesses/clients?

- **Market Valuation**
  - Based on 20XXE, YELP is trading at a small premium to TRIP post the confirmation as default partners on iOS6. TRIP, however remains strong due to: a) better revenue visibility (vertical focus); b) traffic improvement in OTAs[(1)]; and c) strong international presence. Premium of BV is due to its strong market position (enhanced further post the recent acquisition) in social analytics.

Key Statistics

Company	TripAdvisor	BazaarVoice	Yelp
Ticker	TRIP	BV	YELP
Share Price [(1)]	$44.76	$16.91	$22.63
Market Cap	$6,162.0	$1,217.8	$1,444.4
Less: Cash	$208.6	$44.3	$130.7
Plus: Debt	$414.6	-	-
Enterprise Value	$6,368.0	$1,173.5	$1,313.7
Revenue			
	$921.8	$164.3	$186.7
Y/Y Growth	19.3%	26.2%	42.9%
	$772.4	$130.2	$130.7
Y/Y Growth	15.0%	22.7%	38.8%
LTM	$671.6	$106.1	$94.2
/Sales	6.91x	7.14x	7.04x
/Sales	8.24x	9.01x	10.05x
LTM EV/Sales	9.48x	11.06x	13.95x
Key Growth Metric	Revenues	Active Biz's	Active Biz's
	19.3%	13.7%	68.1%
	21.2%	18.0%	52.0%
EBITDA			
	$404.1	($14.2)	$16.5
Y/Y Growth	21.3%	NM	10033.5%
	$333.1	($24.8)	$0.2
Y/Y Growth	NM	NM	NM
LTM	$305.6	($19.6)	($18.3)
/EBITDA	15.8x	NM	79.9x
/EBITDA	3.5x	NM	NM
/EBITDA	3.8x	NM	NM
EPS			
	$1.85	($0.26)	$0.12
Y/Y Growth	24.0%	NM	NM
	$1.49	($0.60)	($0.15)
Y/Y Growth	15.0%	NM	NM
LTM	$1.30	($0.92)	($1.12)
P/E	24.2x	NM	193.4x
P/E	30.0x	NM	NM
LTM P/E	34.5x	NM	NM

Stock Price Analysis

Stock performance follows trends based on strategic initiatives – alliances / acquisitions.

xx/xx/xx: TRIP Q4 'XX miss, guidance for Q1 'XX below expectations

XX/XX/XX: TRIP announces spin off from EXPE to unlock shareholders' value

XX/XX/XX: YELP stock correction after significant run-up post IPO

XX/XX/XX : Listing of BV, +37.6% from IPO price of $12.00

X/XX/XX: Listing of YELP, +63.9% from IPO price of $15.00

XX/XX/XX: YELP Q1 '12 miss, guidance for Q2 '12 below expectations

XX/XX/XX: YELP dropped by 12.4% post disappointing FB IPO

XX/XX/XX: YELP launches services in Finland

XX/XX/XX: YELP announced that it will feature content on Bing search pages

XX/XX/XX: AAPL will integrate YELP's reviews into mapping service for iOS6

XX/XX/XX : TRIP Q1 'XX beat, guidance for Q2 'XX exceeds expectations

XX/XX/XX : BV to acquire privately held rival PowerReviews for $168mm

XX/XX/XX : BV filed a statement with SEC for a proposed follow-on offering

YELP US Equity   **TRIP US Equity**   **BV US Equity**

Source: Bloomberg.

Stock prices have been benchmarked in multiples of $10.00 for comparison purposes.

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Lock-Up Expiration Analysis

Recent IPOs of high growth internet companies with small floats (6 – 16%) have witnessed, on average, a ~15% **drop in the week prior to lock up expiration**.

4 Week Stock Performance Pre- Lockup Expiration

Company	% 2 Weeks	% 1 Week
GRPN	(18.5%)	(19.6%)
LNKD	(11.4%)	1.9%
ZNGA	(7.7%)	(6.8%)
P	(5.6%)	(9.7%)
YNDX	(28.5%)	(23.1%)

Company	Lock Up Expiration
BV	
YELP	

Legend: —— GRPN US Equity —— LNKD US Equity —— ZNGA US Equity —— P US Equity —— YNDX US Equity
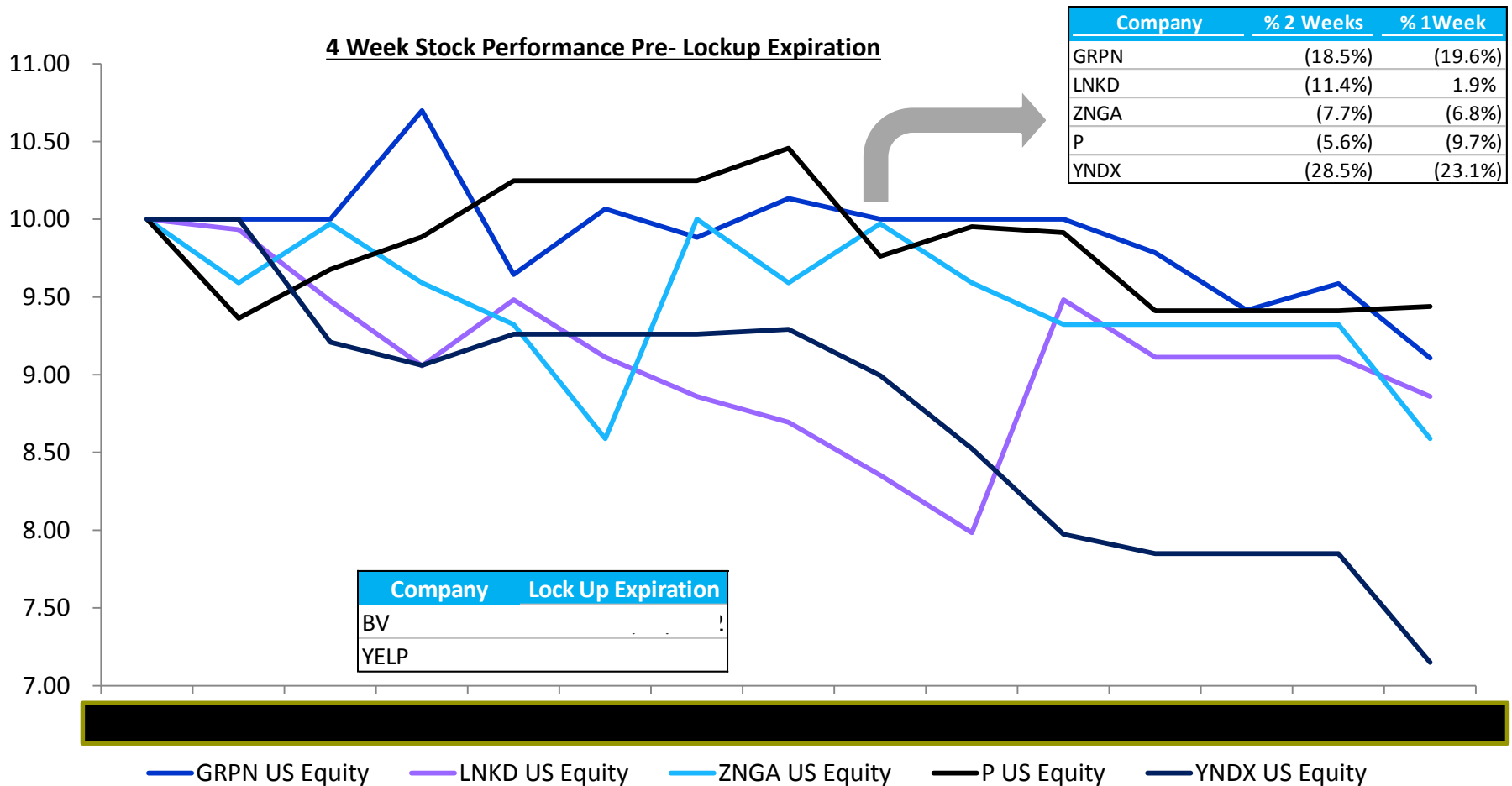
Yelp [NASDAQ: YELP]

YELP, leader in local business information and user generated content, is in early stages of monetization of strong usage growth across various platforms.

KEY SEGMENTS

- **Local Advertising**: ~78% of sales ($21.5mm in Q1 'XX; +91.3% Y/Y). Full profile pages (video + advertising) ~$100-200 per month or a-la-carte for each element. CPC ~ $1.00-3.00. CPM subscription bundle for $300-1000 per month.

- **Brand Advertising:** ~15% of sales ($4.0mm in Q1 'XX; +11.5% Y/Y). Includes sale of display ads on the site.

- **Other Services:** ~7% of sales ($1.9mm in Q1 'XX; +13.2% Y/Y). Includes deals and transaction partnerships (i.e. OpenTable, Orbitz). Deals: 30% of the offer value. Transactions: $0.30 per seated diner for OpenTable.

CONSENSUS CONCERNS

- **Threat from GOOG:** Strategic initiatives by GOOG (launch of Places, acquisition of Zagat) pose a threat to YELP.

  - Our view: We partially share this concern. With 50% traffic derived from GOOG searches, changes in search algorithm can have a meaningful impact on traffic (e.g. about.com). However, in the longer run, the source of traffic generation will be apps and Yelp.com. We believe this concern will moderate, based on: a) 40% traffic from mobile devices; b) app usage from 6.3mm devices per month in Q1 'XX (+80% Y/Y); c) integration of YELP Maps with iOS 6 as a default setting (replacing GOOG Maps).

- **Sustainability of Higher CPM:** Advertising rates are perceived to be expensive, in absence of measurable ROI.

  - Our view: We do not share this concern. YELP is positioned at the end of the purchase funnel in the demand fulfillment stage and provides high lifetime average revenue per customer primarily for lawyers, dentists, jewelers etc. Sustained growth in active local businesses (CAGR of 95% over 2 years) supports our hypothesis.

Yelp [CONTINUED]

Price Target = $18.63 (17.7% depreciation). Accumulate under $15.84.

WHAT WE LIKE

- **Significant Penetration Opportunity:** Opportunity to penetrate into 27mm local businesses in the US and 81mm globally with annual marketing spend of $140B and $500B respectively. Unique visitors <15% of the US online audience and US local advertising market share <1%.

- **Highly Leveraged Operational Model**: a) Minimal content cost – primarily user generated; b) no TAC – through apps/website or organic searches; c) scalable selling and marketing expense – 70% repeat rate and less incremental headcount investment vs. "feet on the street" models. Management targets long term EBITDA margin of ~30-35%.

- **Product Innovation:** Focus on improving a) analytics through dashboards to measure ad impression, clicks, traffic, mobile check-ins etc. to better prove ROI; and b) user traffic through integration with Bing and Siri.

XXX RESEARCH RECOMMENDATION = SELL above $18.63, 2 weeks prior to expiration

- **Price Target**: We arrive at a price target of $18.63 based on the average of DCF and acquisition comps. We assume growth for unique visitors at 31% in FY '12E vs. 67% in FY 'XX as incremental growth in UV has been slowing Q/Q. We assume historical correlation of 62% (UV and number of paying accounts). YELP exits FY 'XXE and FY 'XXE with 36K and 61K paying accounts (27K in Q1 'XX). We assume a conservative drop of 2% in ARPA (competitive pressure and challenging near term outlook on mobile monetization) and improving EBITDA margin (from -1.4% in FY 'XX to 31.5% in FY 'XXE – in line with management estimates). Using acquisition comps, we value YELP at 6.82x FY 'XXE sales.

  - Recommendation: Risk reward ratio is not compelling for a long trade, but would consider shorting into the lock-up above $18.63 for a 15% technical pullback (2 week period). We would consider a fundamental long position if the short-thesis is "over-confirmed" (if shares drops below $15.84).

- **Stock should move after…** a) Q2 earnings (xx/xx/xx); b) news/rumors of M&A activity; c) lock-up expiration.

BazaarVoice [NASDAQ: BV]

BV will benefit from secular trends in social spending, analytics and SaaS. Sticky revenue model and high operating leverage are the levers of value creation in long term.

KEY SEGMENTS

- **Subscriptions:** Allows retailers and brands to capture, manage, display, and analyze reviews and to syndicate content across multiple retail sites. Generates revenue based on subscriptions (SaaS). Revenue: $106.1mm in FY 'XX (+64.6% Y/Y). 790 active clients (+38.4% Y/Y) as of FY 'XX. ~75% revenues from the US. Serves ~10B impressions[1] per month.

CONSENSUS CONCERNS

- **Managing Cash Burn**: Consecutive 7 years of losses and even the most bullish Wall Street estimate projects BV to burn cash until 20XX.

  - Our view: We do not share this concern. BV's FY '08 cohort analysis shows customer that while customers were unprofitable in year 1 (revenue: $2.3mm and S&M expense: $5mm), those customers delivered >75% incremental margins in FY 'XX (revenue: $17.9mm and S&M expense: $3.9mm). Over the long-term, we believe that BV will experience similar leverage as growth slows down and revenue mix shifts towards high margin renewals. Note that BV could operate profitably today if it chose not to invest heavily in growth (FY 'XX-'XX CAGR from R&D and SG&A 89% and 68% , respectively).

- **PowerReviews Acquisition:** Looks unattractive at 14.6x FY 'XX revenue.

  - Our view: We do not share this concern. PowerReviews was competing with BV in almost every deal, restricting the pricing power. We believe that offer value of $168mm is at least ~8% less than the incremental cash flow benefits (15% increment in ASP on BV's run rate revenue of 120mm yields direct net income flow through of $18mm as there are no costs associated. Discounting the annuity savings at 10% generates $180mm). This also excludes the growth in PowerReviews as well as BV.

1) Impressions: Single instances of online word of mouth delivered to an end user's web browser.

BazaarVoice [CONTINUED]

Price Target = $11.40 (32.6% depreciation). Accumulate under $9.69.

WHAT WE LIKE

- **Large Addressable Market:** Well positioned to capture sizable share of US social media marketing spend (Forrester expect a CAGR of 26% till 'XX) and adjacent markets like shopper marketing ($18B) and market research ($31B).

- **Strong Market Position:** 162 of the top 500 Internet Retailers as customers, 2x the past closest competitor PowerReviews (acquired in May 'XX) offering greater network scale and large-scale data analysis. Owns robust operational environment with a) comprehensive moderation services; b) natural language processing technology; c) infrastructure uptime consistently exceeding 99.9%; and d) tight integration with leading social media properties.

- **Sticky Revenue Model:** The business model offers significant revenue visibility with a) annual or multi-year contracts; b) high retention rate of 89%; and c) ~4 months in pre-payments.

XXX RESEARCH RECOMMENDATION = SELL above $11.40, 2 weeks prior to expiration

- **Price Target**: We arrive at a price target of $11.40 based on the average of DCF and acquisition comps. We assume BV's market share to reach 20% by FY 'XXE (7.2% in FY 'XX). BV exits FY 'XXE and FY 'XXE with 860 and 1K clients. We assume 15% and 10% rise in ARPB for FY 'XXE and FY 'XXE on account of a) better pricing power, post-acquisition of PowerReviews; and b) multiple platform integration. We assume EBITDA margin to reach 30% by FY 'XXE. Using transaction comps (SaaS), we value BV at 5.14x one year forward sales.

    - Recommendation: Risk reward ratio is not compelling for a long trade, but would consider shorting into the lock-up above $11.40 for a 15% technical pullback (2 week period). We would consider a fundamental long position if the short-thesis is "over-confirmed" (if shares drops below $9.69).

- **Stock should move after…** a) Q1 'XX earnings (9/06/XX); b) lock-up expiration

TripAdvisor [NASDAQ: TRIP]

TRIP, the largest global network of travel review sites, faces concerns with respect to dependence of EXPE and highly leveraged capital structure.

KEY SEGMENTS

- **Click-based Advertising**: ~79% of revenues ($145mm in Q1 'XX; +20.8% Y/Y). Also includes "check rates" feature along with contextually-relevant branded and unbranded text-links. CPC ~$0.50-1.50.

- **Display Advertising:** ~12% of revenues ($22mm in Q1 'XX; +15.8% Y/Y). CPM ~ $16-22.

- **Others:** ~9% of revenues ($17mm in Q1 'XX +70.0% Y/Y). Includes subscription based advertising and transactions.

CONSENSUS CONCERNS

- **High Dependence on GOOG:** Sources significant traffic from GOOG

  - Our view: We partially share this concern. Organic search results are being pushed beneath the fold by various GOOG products. However, integration with FB in 'XX and growth of mobile subs (>17mm mobile apps) have reduced traffic sourced from GOOG (23% vs. 37% a year ago).

- **Reduced Spending by EXPE:** TRIP's largest advertising customer; Expedia is planning to reduce the per-click commission fee paid.

  - Our view: We share this concern. The impact of a 10%/20% spending cut will be 2.8%/5.6% on proforma revenues. Additionally, the highly leveraged capital structure (5 year senior term loan and revolving credit facility of $400mm and $200mm respectively pushing debt/equity from 0.3% in FY 'XX to 117% by Q1 'XX) will put incremental pressure of ~45.5mm on FCFE.

TripAdvisor [CONTINUED]

Price Target = $30.99 (30.8% depreciation). Accumulate under $26.34.

WHAT WE LIKE

- **Leading Online Travel Platform:** >20mm members creating +60mm reviews. Database of +110K destinations, +180K attractions, +570K hotels and +800K restaurants. Online travel advertising share of ~13% in 'XX. ~1.5x MUV compared to its nearest competitor.

- **China Opportunity:** Market with >650mm internet users by 'XX and penetration of ~50% (vs. 70%+ in US/UK) Runs Daodao and Kuxun (2nd largest travel site; 17% market share). Strong traffic trends after the acquisitions – generated 2x.

- **Online Vacation Rental Opportunity (US and Europe):** Highly fragmented market of $85B where TRIP (through FlipKey and HolidayLetting) commands 2nd position but represents only ~3% share with +200K listings.

XXX RESEARCH RECOMMENDATION = SELL above $43.21, accumulate under $26.34

- **Price Target**: We arrive at a price target of $30.99 based on trading comps analysis on 3 related segments i.e. reviewers, advertisers, and online travel agencies (OTA) with weights of 40%, 40% and 20% respectively. TRIP is valued at 5.91x one year forward sales from reviewers and 10.4x one year forward EBITDA from advertisers, and 13.0x one year forward EBITDA from OTA. Based on the above methodology, TRIP is valued at 5.29x one year forward sales and 12.2x one year forward EBITDA.

  - Recommendation: We recommend initiating a short above $43.21 (26x one year forward net income – in line with EPS growth rate). We would consider a fundamental long position if the short-thesis is "over-confirmed" (if shares drops below $26.34).

- **Stock should move after…** a) Q2 earnings (8/14/XX); b) announcement in EXPE or other OTAs spending outlook

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