

Investment Research

Angie's List (ANGI)

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The Undervaluation Argument

The prospectus of Angie's List (ANGI) described the following mission statement: "help consumers find the best service providers and promote happy transactions." This is a great, altruistic objective!

Given the appeal of ANGI's business premise, the organization should be generating significant profitability and creating incredible value for the shareholder, measured by the price performance of the public equity (ANGI).

ANGI has appreciated approximately 30% since its IPO on 11/16/2011, whereas YELP has appreciated approximately 500% since its IPO on 03/01/2012.

ANGI turned a profit in Q4 2012, otherwise it hasn't turned a profit since the first, public filing of annual results: 2006. How can an organization remain a going-concern if it can't figure out how to profit from the service it provides to the market?

On the one hand, ANGI operates under a fantastic business premise. On the other hand, ANGI underperforms in the market. Intuitively, it's either the strategy or the execution of the strategy.

According to ANGI's prospectus, the extensive and reliable database of member generated content is the primary strength of the organization. Actually, it's a significant weakness in the organization right now.

Try and find the best doctor or dentist using ANGI. The member has to sift through a significant amount of unorganized data, making it a very tedious process. Its human nature to address health care, so this represents a very attractive market to ANGI.

To illustrate the unorganized data, some dentists have been entered into ANGI using one naming convention, and the same dentists have been entered into ANGI using a different naming convention. By using

different naming conventions for the same service provider, ANGI destroys the value for the service provider, because it prevents an efficient, accurate aggregation of the member review on a service provider. It also prevents efficient, meaningful feedback between the consumer and the service provider within ANGI.

The member review creates significant value within ANGI. But a member has to create the review using an inefficient, tedious process within the software of ANGI, which creates much of the unorganized data.

If the member review is the primary strength of the organization, then why execute the strategy in a way that destroys the value of the member review for both the consumer and the service provider?

To develop the primary strength of the organization, correct the process in which the data enters the ANGI system. It's imperative for ANGI to control the quality of the data, because "garbage in – garbage out" is a very tough sell in the market, especially long-term.

If the member review is the primary strength of the organization, then give away the membership to the consumer! This will increase the size of the potential market for the service provider, which creates significant value for the service provider. And this makes it easier to sell ANGI in the marketplace.

To create significant shareholder value like YELP, ANGI must control the quality of the data, correctly segment the market data and provide meaningful feedback between the consumer and service provider, because the efficient feedback in the market creates the value within the market.

Paradigm. "ANGI can provide the environment to facilitate satisfied transactions between the consumer and service provider within the target market of ANGI."