Citron RESEARCH

June 12, 2013

Angie's List Committing Fraud on their Subscribers -- Please Sue Us Angie, so we can prove your fraud in court!

In the last 3 months alone, the CEO of Angie's list has sold around as much stock in dollar terms as this company generated in their only profitable quarter in 18 years. Mr. Oesterle calls this a "transition year" for Angie's. Agreed. He is transitioning your money into his pocket.

Background

In Part 1, Citron provided its analysis and opinion that **Angie's List (NASDAQ:ANGI)** is not a business, but rather merely a stock market artifact left over from Web 1.0. Established in 1995, Angie's has **never in its eighteen year history** been profitable. It is Citron's thesis that the pre-eminent reason for the company's consistent record of abject execution failure is that any website designed and built around the principle of "non-anonymous", reader-contributed reviews cannot ever function as an "honest source" of referrals.

Today Citron expands on this opinion below, and also publishes a detailed financial critique of the company's statements about how it purports to become profitable vs its published financials here.

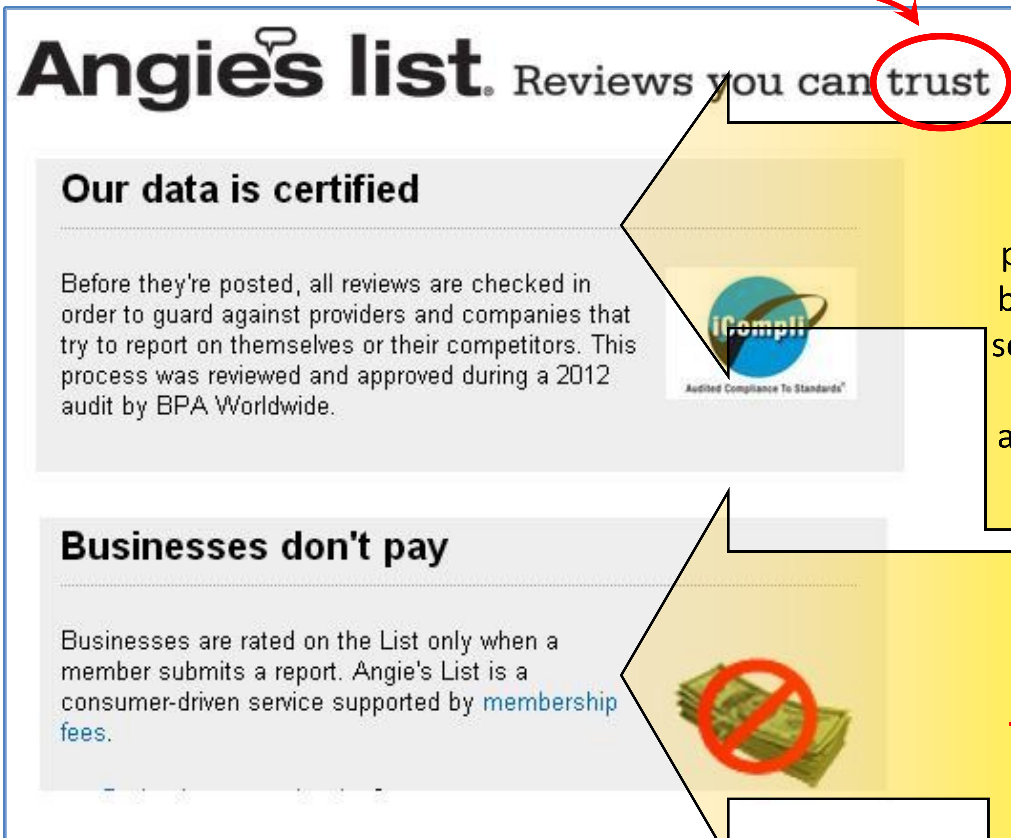
Angie's has taken gobs of Wall Street money, which it spends trying to drive topline revenue from a big telesales room. It is important for investors to understand that this is **not** and **never will be** a scalable internet business model. It is a **lead generation business**, one that neither its subscribers nor service providers receive long term value from.

Citron has never seen an internet business with such negative user reputation on the internet.
http://bucks.blogs.nytimes.com/2012/03/02/your-reviews-of-angies-list/ (Click to expand reader comments) and http://www.knaddison.com/technology/why-angies-list-sucks?page=1

Meanwhile, complaints about involuntary subscriber renewals via automatic credit card charges and involuntary price increases go unmet and unresolved … for now … Citron believes that once the speculative pixie dust settles, it will be obvious that Angie's lead generation business model is worth no more than the value of HomeAdvisor … **which is about $6 per share, if** (and that is a huge **"if")** **Angie's can actually insinuate itself into sustainable and real profitability, an transformation we think is highly unlikely.**

Lying to the Public and their own Members about the Nature of "Membership" Subscriptions

Is this the picture of trust?



See it for yourself here: http://www.angieslist.com/how-it-works.htm

How can a non-anonymous review possibly be **trusted** to be objective when the service provider knows your identity, your address, and has been inside your home?

They don't?
How can this outrageous claim be **trusted,** when in fact over **70%** of Angie's List revenues comes directly from service provider businesses? This is a bold-faced **EFFIN' LIE!**

Citron Conclusion #1: Lying to Member Subscribers about the Ratings and Objectivity of Service Provider Listings and about whether the service providers are paying to be listed.

How will Angie's List subscribers feel as they learn that they are being lied to, every day?

Facts as filed #1:

"Angie's List generates **71.9%** of gross revenues from Service Provider fees.
It earns only **18.1%** of revenues from membership subscriptions. "

-- *2013 Q1 Angie's List 10-Q*

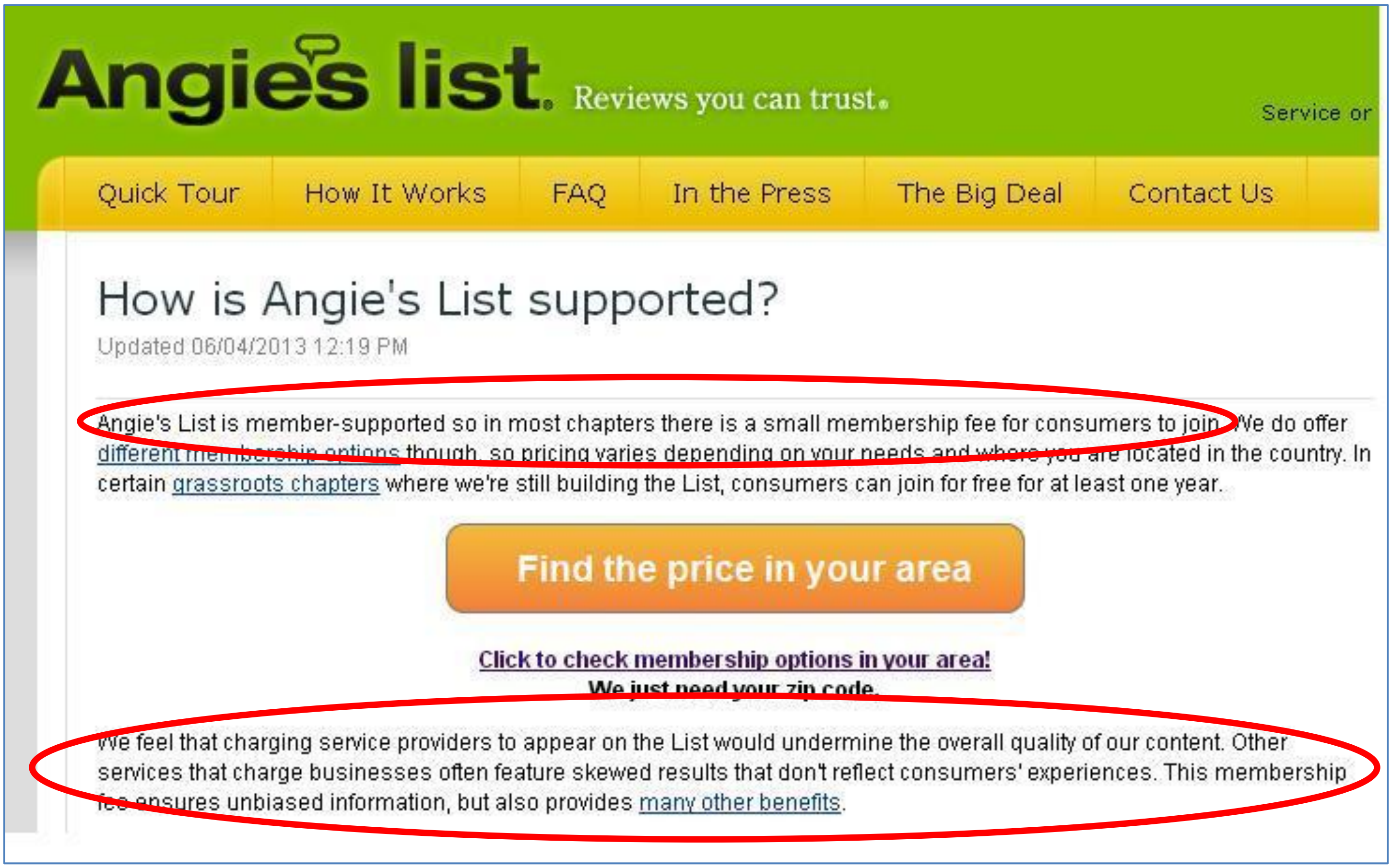
Facts as filed #2:

"The percentage of its gross revenue generated by Service Provider fees has increased by appx **400 basis points per year** for the last 4 years, while the percentage of gross revenues generated by membership subscriptions has decreased by the same **400 basis points per year**. "

Percentage of Revenues from Subscribers and Service Providers over the last Four Years (from 10-K filings)

Year	Q1 - 2013	2012	2011	2010	2009	2008
Subscription Revenue	28.1%	30.6%	37.5%	42.6%	44.8%	47.1%
Service Provider Display Fees	71.9%	69.4%	62.5%	57.4%	55.2%	52.9%

But here's how Angie's List represents these facts to its own members and the public:



https://support.angieslist.com/app/answers/detail/a_id/46

"Member-supported" …?
"Grassroots chapters"…?
"Charging service providers to appear would undermine the overall quality of our content"…?

> "We feel that charging service providers to appear on the List would undermine the overall quality of our content. Other **services that charge businesses often feature skewed results that don't reflect consumers' experiences**. "
>
> *-- Angie's List Website: 'Member-supported' page*

Finally, Angie's List makes a statement that Citron agrees with! Unfortunately, they imply they don't charge service providers, which is the biggest lie so far!

Citron Conclusion #2: Citron calls upon Angie's List to Stop Lying on its website about being "member Supported" and not charging Service Providers.

Declining Revenue per Member/Subscriber

Analysis of Angie's List Average Revenue per Subscriber
Prognosis: 3 ½ Years of Steady Declines.

	Mar-10	Jun-10	Sep-10	Dec-10	FY 2010
Member Revenue per average member	$13.57	$13.16	$12.24	$11.58	$49.57
YoY Growth					
QoQ Growth		-3.00%	-7.00%	-5.40%	

	Mar-11	Jun-11	Sep-11	Dec-11	FY 2011
Member Revenue per average member	$11.01	$10.61	$10.07	$9.43	$40.31
YoY Growth	-18.80%	-19.30%	-17.80%	-18.50%	-18.70%
QoQ Growth	-4.90%	-3.60%	-5.20%	-6.30%	

	Mar-12	Jun-12	Sep-12	Dec-12	FY 2012
Member Revenue per average member	$8.69	$8.51	$8.27	$7.94	$33.34
YoY Growth	-21.10%	-19.80%	-17.80%	-15.80%	-17.30%
QoQ Growth	-7.90%	-2.00%	-2.90%	-3.90%	

	Mar-13	Jun-13 (Estimated)
Member Revenue per average member	$7.83	$7.65
YoY Growth	-9.90%	-10.20%
QoQ Growth	-1.50%	-2.30%

Meanwhile, the company continues to loudly proclaim its growth in "paid memberships", but the numbers of such "paid members" is barely able to keep pace with the falling membership subscription rates.

As Angie's List becomes ever more dependent on service providers for revenues, it builds its subscriber base using a lot more free, discounted and very low cost subscriptions than it discloses. And it is justifying higher service provider advertising fees based on its claims about the growing number of paid subscribers. These claims are in severe conflict.

Citron Conclusion #3: Declining average subscription rates imply bottom of the barrel geographies, increasing numbers of free subscriptions, and the end of the rainbow.

How are we to believe that average service provider revenue can climb sustainably at 70% - 120% per year while average membership subscription rate is declining over a four year timespan, approaching half its rate of just 4 years ago?

Angie's sales pitch to service providers renewing contracts at higher rates is predicated on increasing number of **paid** subscribers. But if large numbers of these turn out to be free… the service providers won't continue to renew, and won't pay up for advertisements , because their results aren't supported by a larger and ever-more motivated membership.

Plus large numbers of free subscribers, as well as monthly subscribers, are not even counted in these average revenue per subscriber figures…

New Story Shows Lunacy of Business Model

In our first part we described how utterly stupid and irresponsible the Angie's List business model is. Just this week we read an article that illustrates our point perfectly

http://www.azfamily.com/news/consumer/Investigations-underway-for-Sound-Creations-contractor-210647461.html

Someone hires a non-licnesed contractor from Angie's and is upset with the job. This would not happen if in fact Angie's would verify service provider licensing, which they don't. After being contacted by the consumer advocate, Angie'e decided to intervene. What makes this recent story relevant is twofold.

1. It shows how utterly unreliable their business model as their value add does not exist
2. It proves why the company can NEVER move into an e-commerce model. If in fact the company generated a significant amount of cash from selling services, than they would be a guarantor for those services -- something they can never do.

Yet the CEO talks like he can just turn on a "Buy it Now" feature. Best of luck with that!

Conclusion

Angie's List CEO calls his website the "only honest broker of user reviews" on the web, but it slots its service provider listings based on how much they pay. Their deceptive member renewal policies now have them in the crosshairs of an ominous class-action suit, which all investors should read.

It is Citron's opinion that there is nothing inherently trustworthy about the premise of a website where anonymous reviews can't be posted. Here's just one of many news stories making our point.

> " the rising number of consumers being **sued** for online reviews they've left after, they claim, having bad experiences … the number of online defamation cases is growing so rapidly that a law firm … now specializes in it.…

http://www.fox19.com/story/22141092/fox19-investigates-consumers-sued-for-online-reviews

The other side of the coin, a listing of page after page of only "Grade **A**" reviews, in which service providers are jacked for "$15,000 to $50,000" for the privilege of being listed on the first-page, is not sustainable.

Angie's most recent quarter abounded with red flag indications as well. The company noisily drew attention to nearly $10 million generated from operations. But this was not a function of profits, it was a change in the schedule of sales force compensation – which went from paid whole at the time of contract sale, to paid ratably over the course of the contract. So this "cash" is merely a one-time adjustment, not a sustainable cash source -- Angie's still owes the sales people. They simply generated a cash adjustment, and increased their liabilities to offset it. This is financial sleight of hand.

For a company that tells so many **lies** to investors, subscribers, and service providers, the irony leaves us shaking our heads …. And he calls profitability **"A Funny Metric"**. Yikes!

Behind the curtains, Angie's receives cash up-front and recognizes that revenue over the life of the display contracts and subscriptions, typically one year term for service providers and subscribers. It can manipulate its bottom lines temporarily by constricting expenses, such as lowering employee compensation or commissions. Misleading the investing public with one-time adjustments is also a lie.

It is Citron's opinion that indications of the collapse in financial performance will appear in the next few quarters. The low member renewal rate in the 70% - 75% range means a new customer doesn't break even for five or six years … and it is likely that former members churned out will not return to the fold. Meanwhile, annual advertising increases of 75% - 125% on service providers may have caught a one-time air pocket, but can't possibly be sustainable either. It remains Citron's opinion that service providers will not stay around at high and ever-increasing display rates as further renewals won't be cost justified, and other competitors, with **truthfully disclosed service provider lead-generation models**, gain traction.

Cautious Investing to All.