

## Bad Idea + Bad Business = Wall Street Fiction

### “Angie Angie ... Ain’t it time we said goodbye ...”

Angie’s List (NASDAQ:ANGI): On its best day, and if the company can defy all history and common sense, it could be worth \$6 a share. If you don’t believe Citron, take it from Goldman Sachs and Deutsche Bank.

Angie’s List is the most ridiculous, stupid, misunderstood, negligent, nonsensical, outdated, irresponsible business model in the new web economy. Citron will show the obvious fatal flaws that Wall Street has overlooked, as the analysts cheerlead for a company whose only accomplishment is losing less money than they predicted. New economies give rise to disruptive businesses that are commonly overvalued by the market due to their potential; rarely do they give us a 15-year-old business model that couldn’t make it past a first year business school presentation.

In Part 1 of this expose, we will discuss the structural premise of Angie’s business model that renders it terminal, and cannot be ignored by investors. This business model is so obviously flawed and inferior to their competition that we believe it is a story in itself. Part 2 will examine in detail the accounting shenanigans played by Angie’s List to create the illusion of “losing less money” than expected. All of the metrics that support a growth story in Angie’s are skewed to deceive; we will prove that in part 2.

Established in 1995, Angie’s List has since has accumulated a deficit of \$219 million, while insiders have enriched themselves by selling over \$135 million worth of stock since its 2011 IPO debut. All of this is predicated on a business model that does not work, whose revenue is overly dependent on a large phone room, does not and cannot grow virally, and makes zero logical sense.

In a bull market, it seems that analysts look at a stock price first, then reverse-engineer a thesis, no matter how preposterous, to explain and justify its valuation.

It is the opinion of Citron that the recent runup in stock price in Angie's List is the worst of Wall Street running amok on its own self-serving hype.

## “Angie, Angie, they can't say we never tried”

The core business model operating at Angie's has been, and will always be, a colossal failure. Citron now explains why. **Let's begin with an indicator that something is seriously wrong.**

Isn't it amazing that a company that is in the business of monetizing online reputations from real people has **such a horrible online reputation?** Angie's List has one of **the worst online reputations** of any company we have ever seen. If in fact there were an Angie's List rating for Angie's List ... it would earn an “F”. Here is just a sampling of reviews from real people: There are hundreds.

<http://livingstingy.blogspot.com/2010/08/Angie's-list-what-waste.html>

<http://Angie's-list.pissedconsumer.com/angie-s-list-make-cancellation-difficult-20120721333610.html>

This is one of our favorites ... in response to a short, favourable two-paragraph article in the New York Times, we read over 100 consistently negative reviews from real people:

<http://bucks.blogs.nytimes.com/2012/03/02/your-reviews-of-Angie's-list/>

( Click on “**READ MORE COMMENTS** to expand )

So if you want to develop your own investment thesis in ANGI, start with the comments of real people, who describe their experience using Angie's List.



### The Fatal Business Premise: No Anonymous Reviews

One of Angie's most-advertised selling points is that its reviews are from “real customers”. Yet **the single most common complaint** about Angie's List from “real people” is that nearly all of its online reviews are “A”'s. Of course they are. Their entire business model is built around a system rigged to assemble and display only “A” reviews, creating an ecosystem that manipulates both members and service providers. What happens to those members who have problems with the services received? Citron explores the system of disincentives to report negative experiences, with evidence in the words of former customers and service providers. What other posts does that leave on Angie's except friends, relatives, or shills for the service provider?



Search the List

Deals & BuyNow

Band of Neighbors

Write a Review

Search for (e.g. roofers, Joe's Plumbing Co., auto repair)

Near (Address, Neighborhood, City or Zip)

Plumbing - Drain Cleaning

2666 hutton dr BEVERLY HILLS, CA 90210

Search

Home > Search the List > "Plumbing - Drain Cleaning" near 2666 hutton dr

Browse all categories Advanced Search

### 859 Search Results in Plumbing - Drain Cleaning

How are companies displayed? What keeps us honest?

#### Views

- List View
- Map View

#### Refine your search

##### Recent Grade

A Only (202)  
B or better (319)

##### Recent Reviews

Minimum # of Reviews:  
any  Go

##### Provider Name begins

2 3 4 9 A B C D E F G H  
I J K L M N O P Q R S T  
U V W Y Z

##### Search Terms

Search within results:  
 Go

##### Honors

Super Service Awards (29)  
Page of Happiness (359)

##### Profile

Eco-Friendly (149)

##### Offers

Coupons (13)  
Big Deals (9)  
Buy Now (9)

##### Service Area

Ignore Service Area (1,224)  
Definitely Service My Area (409)

##### Distance

Miles away:  
 Go  
From this address:

##### Search Preferences

Save Angie's List Search Preferences

Sorted By: With Coupons

#### MALCOLM Plumbing & Rooter

Contact Info and Reviews

This provider has received 6 reviews from members located within 5 miles of your address.

Plumbing - Drain Cleaning



A Grade

46 Reviews

6 more...

5% off for Angie's List Members and Senior Citizens. more...

#### Rooter Alert - wholesale sewer contractor

Contact Info and Reviews

This provider has received 20 reviews from members located within 5 miles of your address.

Plumbing - Drain Cleaning



A Grade

388 Reviews

5 more...

\$295 for Hydro Jetter. FULL 3 YEAR WARRANTY! Completely Remove Roots and Grease. Incl... more...

\$75 Main Line, Sinks, Tubs or Shower Electric Snake Drain Cleaning. FULL YEAR WARRANT... more...

FREE video camera sewer pipe inspection, included with ALL of our services ! (\$225 value) more...

#### Bill West Plumbing Inc

Contact Info and Reviews

This provider has received 2 reviews from members located within 5 miles of your address.

Plumbing - Drain Cleaning

A Grade

10 Reviews

5 more...

5% off first service call for new customers. more...

#### Ford's Plumbing and Heating

Contact Info and Reviews

This provider has received 2 reviews from members located within 5 miles of your address.

Plumbing - Drain Cleaning



A Grade

15 Reviews

7 more...

20% OFF FOR ANGIE'S LIST MEMBERS. MAXIMUM VALUE \$100. NOT TO BE COMBINED WITH ANY OTHER SPECI. more...

#### Patriot Plumbing & Rooter Inc

Contact Info and Reviews

Plumbing - Drain Cleaning

A Grade

23 Reviews

9 more...

Kindly offers to all Angie's list members: free estimate, 10% discount, free sewer inspection wi... more...

#### Moe Plumbing Service

Contact Info and Reviews

This provider has received 2 reviews from members located within 5 miles of your address.

Plumbing - Drain Cleaning

A Grade

10 Reviews

6 more...

20% off Materials and 10% off of Labor up to \$300 more...

#### Showtime Plumbing and Rooter

Contact Info and Reviews

This provider has received 3 reviews from members located within 5 miles of your address.

Plumbing - Drain Cleaning

A Grade

12 Reviews

6 more...

20% off for Angie's List Members -OR- \$200 off Labor of Tankless Water Heater installation \*\*\*. more...

#### Red Lily Plumbing

Contact Info and Reviews

Plumbing - Drain Cleaning

A Grade

7 Reviews

4 more...



Is this the Little League where every player gets a trophy?

There are hundreds of former customer voices explaining Angie's system and its impacts. This one explains the business model with particular clarity:

### **Angie's List is deceptive and creates a false sense of security:**

I have to second what already has been stated. Angie's list is not only not helpful, it lures customers into a false sense of security. Here are the reasons:

-if you have a bad experience with a company (I am referring here to a REAL bad experience, one you can prove) and post a negative review, the following will most likely happen (it happened to me several times): the company will contact you at home and offer you some kind of reimbursement, apology, etc., so that you may change or delete your review. I didn't post the negative review because I wanted a freebee, but because I wanted to make sure others on Angie's list are warned. Therefore, I didn't react to their messages. I received SEVERAL phone messages and was annoyed by the calls. If you don't react, they will then post a "rebuttal", which presents you, the customer, as somebody with a "problem" and all the (recorded) apologies for bad service are never mentioned. However, I assume many will indeed delete their negative review to get their money back (as they should).

-you and many others can post negative reviews for a company, yet that company can maintain an A in "recent" grades. Why? Because "recent" is not recent. It means 2 years. So, if a company had good reviews in, let's say, 2012, your negative review in 2013 (and those of others) will have 0 impact. This makes no sense, because I want to know about the present performance of a company, because this is when I plan on hiring them.

-In one particular case, I made the effort and calculated the overall grades. It came out to a C, yet the company maintains an A. I then wrote to Angie's list to ask how that was possible and first received a condescending answer (it works just like in High School - mhhh, no it doesn't, unless your teacher is a moron), and upon a second inquiry, I was emailed a prewritten answer about the impartiality of their reviews without directly answering my question.

-I also noticed that my negative review completely disappeared when accessing a company through the "Big Deal". The image of the evaluations is the same, but it only shows A reviews. When I asked them about that, there "explanation" was that providers can advertise on Angie's list. What?????

I strongly, strongly advise not to use Angie's list. I just cancelled my subscription.

<http://www.ripoffreport.com/r/Angie's-list/-internet-/Angie's-list-deceptive-business-model-internet-364982>

So let Citron get this straight! A handyman, painter, or electrician comes to my house. I let him in my front door and he spends a few hours in my sanctuary. This person does a

poor job for whatever reason and I am dissatisfied. Now, I am supposed to pay for the right to go online and tell the world about the provider, someone whose background I know nothing about, who has already been inside my home, and has done me wrong? And, before I post this review, the site warns me:

“Please remember that your name, address and this review information will be available to the service provider being rated.”

Here is a jaw-dropping but real story from last month: Someone hired a plumber on Angie’s List -- and the plumber was a **sex offender**. A week after going to the member’s house, he requested the customer attend his parole hearing ... as a character witness!  
<http://www.ign.com/boards/threads/found-out-my-plumber-is-a-sex-offender.452906950/>

Even when a customer submits a generally positive review, the model reveals its fatal flaws. Below is a story of a customer who used a locksmith and gave generally good reviews, except for a single category in which he gave “B”. The locksmith took offense to the “B” rating and harassed the customer.

[http://www.reiddossinger.com/post/24140900579/my-story-of-how-Angie’s-list-handed-over-my-contact#.UXw\\_JKLUejM](http://www.reiddossinger.com/post/24140900579/my-story-of-how-Angie’s-list-handed-over-my-contact#.UXw_JKLUejM)



### From the service provider side:

So now that Citron has shown that Angie’s List is not a good value proposition for the members, what do the service providers think of it? For this we will refer to the latest 10-Q, and reveal some simple math that speaks for itself.

“We increased the number of our sales personnel originating new advertising contracts by 39% to 569 and the number of our sales personnel responsible for contract renewals by 64% to 154 from the end of the prior year period.”

Further, they added a net 3,312 business provider customers during the quarter.

So that’s 3,312 new customers divided by 723 sales agents. **That yields 1.14 new customers per month per sales agent.** So if I work at Angie’s and am given a limitless

amount of leads and a book of current clients to manage, I will finish the month with 1 additional advertiser contract? Is this a business?

Consider the world from the perspective of an experienced service provider. Angie's is equally manipulative of legitimate service providers as it is of customers. Here is an insightful post from a longstanding and experienced Seattle-area plumber, a firm with years of former experience on Angie's list:

## Seattle Plumber: Angie's List 'a Kind of Pyramid Scheme'

I have years of experience with Angie's List as a local plumber in Seattle. They have gotten money out of me and gave nothing in return except much trouble from customers that tend to be pretty passive aggressive. Angie's List get paid on both ends – Any contractor listing you see is only visible to you if the contractor is paying Angie's List through the nose. My cost for Angie's List "hot leads" was \$300 each. Testing Angie's List cost me \$7000 over two years. While paying such high costs for leads may work for a major construction project, it won't work for a service call where we charge by the 1/4 hour. ...

Any homeowner service using this advertising method is paying way too much to maintain any integrity in the service. This type of advertising creating an incredible amount of pressure to convert to a commission-based high profit business model for basic traditional services. If I pay Angies List hundreds of dollars just to ring your doorbell how can I treat you fairly when your plumbing problem requires an hours work? I can't so I cancelled my advertising contract with Angie's List.

Angie's List uses a unique money making model that actually is a kind of pyramid scheme. They put all the local harvested contractors into their listings but you only will call highly rated ones. In order to be highly rated you must pay Angie Thousands of dollars a year for position in order to be seen AND time in grade is required to accumulate favorable reviews. Only a dozen or so can be in that position. The homeowner only calls the ones at the top so all new advertisers must invest thousands on continuing annual contracts to play the game on Angie's List . ...

Question: Why should we need out-of-state corporations to connect homeowners to services down the street? Surely there is a simple, inexpensive way for us to know our neighbors and small businesses. We all need to put a little thought and effort in that direction....

<http://screenwerk.com/2012/10/15/seattle-plumber-angies-list-a-kind-of-pyramid-scheme/>

The above service provider points out that in Washington, a plumbing license (with 8,000 hours of training) is a requirement to perform plumbing services. Yet drain cleanout firms typically offer “plumbing services”, performed by untrained, unlicensed personnel. Angie’s does nothing to prevent this type of service misrepresentation.



## Do you know the Background of your Service Provider?

While not reflective of the whole profession, it should be noted that plumbing, painting, electrical and other building trades are most commonly taught in penitentiaries.

[http://en.wikipedia.org/wiki/Prison\\_education](http://en.wikipedia.org/wiki/Prison_education)

<http://www.bop.gov/news/PDFs/ipaabout.pdf>

Independent background checks of service providers are a potential value-added service of online lead and listings services ... but Angie’s doesn’t provide them! Why? This will be explained below when Citron analyzes the industry’s best comp to Angie’s.





## No Qualifications Necessary to Obtain Service Provider Listings

It should be noted that in 10 minutes, Citron was able to establish Citron Plumbing on Angie’s List. With no license, no background check, we are open and ready for reviews:



**Angie's list.**  
Reviews you can trust.

Search  
Citron

Home > Search the List > Citron Plumbing

**Citron Plumbing**

**Contact Information**  
andrew left  
3354 lemon lane  
studio city CA 91604-4147 (Map it)  
**(310) 867-5309**

Add to My Favorites  
Share with a Friend  
Add Text2Me Options  
See an Error?  
Share

**Business Description**  
Citron does all general plumbing work for residential

**Service Area**  
Los Angeles County

[\( Click to see more \)](#)



## So how does Citron approach valuation for Angie’s?

Finding a good valuation comp for Angie’s List seems to have stumped Wall Street. It’s not Yelp, because yelp is a high-traffic generating “customer review site”. It’s not Zagat, which Google bought, because Zagat rates restaurants, rendering it specifically relevant to the mobile business and mobile traffic generation.

Citron has identified a really probative comp, however, which is an undeniable direct competitor to Angie’s. While it’s not directly publicly traded, it’s a part of Interactive

Corp. (NASDAQ:IACI); perhaps that's why the analysts have missed it. Both companies were designed to connect members to qualified service providers. Going to a restaurant for a meal is has a far lower threshold of trust than inviting a stranger into your house to work on your most valuable asset.

The nearest competition to Angie's List is a company called **Home Advisor** ([www.homeadvisor.com](http://www.homeadvisor.com)), formally Service Magic. It is a division of internet conglomerate Interactive Corp. Both companies connect consumers to service providers focusing in particular on home repair. As a matter of fact, when you sign on the Home Advisor Website, they immediately show a comparable of the two companies.

**HomeAdvisor invites you to compare our service with Angie's List:**

	HomeAdvisor	Angie's List
Customer Ratings & Reviews	✓	✓
Live call center support	✓	✓
Pros screened for felonies	✓	✗
Pros screened for bankruptcy	✓	✗
Competitive quotes with one request	✓	✗
Cost	<b>FREE</b>	<b>FEE REQUIRED</b>

<http://www.homeadvisor.com/compare/>

The two firms are also compared on many consumer sites:

<http://Angie'slist.knoji.com/compare-vs/servicemagic/>

We encourage readers to spend time on both sites. From an international footprint, to interactive applications and cost guides, when actually comparing Home Advisor to Angie’s List, it is obvious that one is major league and another is a pretender.

Most significantly, **Home Advisor actually performs background checks** on providers for felonies, bankruptcies, and licenses.

As of December 31, 2012, HomeAdvisor's network of home services professionals consisted of more than 80,000 professionals in the United States providing services in more than 500 categories ranging from simple home repairs to home remodeling projects.

In 2010, more than **7,000** service companies were turned down due to their failure to pass the general background check, according to Brooke Gabbert, director of public relations and social media for Service Magic.

<http://www.smartmarketingllc.com/2012/04/30/online-referral-services-Angie’s-list-service-magic-yelp/>

**How many of those providers appear on Angie’s List? How many service providers would Angie’s lose if it retroactively instated background checks?**

When Citron research called Home Advisor to order up a profile for Citron Plumbing, we were properly refused, because we are not licensed plumbers.

The reason why Home Advisor is profitable is because they **sell leads** to service providers, not advertising. This qualification method translated into a bottom line that did \$350 million in revenues in 2012 and will generate \$38 million in EBIDTA in 2013.

Comparative financial performance: Angie’s List vs Home Advisor:

2012 Performance	Angie’s List	Home Advisor
Gross Revenues	155 million	350 million
EBITDA Income ( <b>loss</b> )	(-45 million)	38 million profit

Recently Goldman Sachs published a sum-of-the-parts analysis of Interactive Corp. , stating that at \$40 mil EBIDTA, as estimated for 2013, that Home Advisors business is worth 7x or **\$280 million**. Deutsche Bank was more aggressive, resulting in a **\$320 million** valuation for Home Advisor.

So as investors, here is what we can deduce. **If** in fact Angie's List is able to hit all of the most optimistic analyst targets and accomplish what they have not done in 18 years -- **become genuinely profitable for a sustained period of time** -- then they will hit \$40 mil in EBIDTA in mid to late 2014. If they can sustain this through 2015 their business could also be worth \$320 million ... or **\$5.50** a share! If we allowed them 10x EBITDA, then it could rocket all the way to ... **\$6.88** per share!

If anything, Home Advisor should charge for qualifying the providers and Angie's should be free. Running an ad based model based on paid memberships might have been a good thought in 1995 but today a dinosaur.



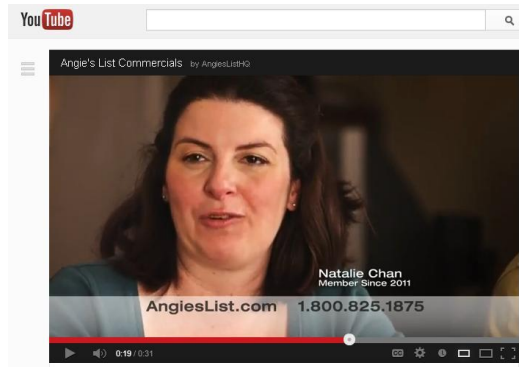
## Hey Citron...isn't there anything good about Angie's List?

Yes, we give Angie's credit for having the credit card information for a large customer base that has generally forgotten they are being charged. We then give them credit for having a very liberally constructed "terms of service" agreement, **which allows them to increase customer rates significantly without consent**. Sure, this has resulted in a **massive class action lawsuit**, and has invited the ire of customers ... but in the meantime, it works ... ([LINK to Fritzing class action suit](#)) In Citron's opinion, income predicated upon deceiving customers is **not sustainable**, and not worthy of a multiple.



## Lack of Growth in New Verticals

Clearly, one of the major constraint's on Angie's List growth is the relatively narrow wedge of home improvement service providers. So Angie's List is attempting to enter new verticals, which further exposes the complete stupidity of their business model. This is a link to the most recent TV commercial for Angie's List:



(Click to Play)

In it we see a testimonial from “Natalie Chan” that says: “Now that we’re expecting, I like that we can go on Angie’s List and look for pediatricians”.

So let me get this straight, Natalie. You are going to find **your child’s doctor** by consulting a list of reviews from people you don’t know? And you are going to pay for that? You don’t know friends or relatives with children? Your OBGYN or GP where your health insurance plan reimburses your medical care can’t recommend a pediatrician? You don’t have a Facebook account on which you can ask your friends if anyone can recommend a pediatrician?

Would any Angie’s List investor use a doctor because he/she advertised on Angie’s List?

Finally, just to show how preposterous this ad claim really is, consider this: A physician **cannot ever respond** to a dissatisfied patient review due to [HIPAA regulations](#). Imagine requiring a patient’s real name to post a negative review of a physician, then Angie’s calling up the poster to try to “resolve” the complaint with a refund or a discount? This absurdity just shows the lack of thought and proper business planning done by management at the core of Angie’s List business model. One day someone had the bright idea “Let’s expand to other verticals, like Doctors!” And off they went, into utter nonsense.



## Heavy Traffic? Not!

Here’s just one comparative view of traffic generation between Yelp and Angie’s [http://www.google.com/trends/explore?q=Angie’s%20list%2C%20yelp&date=today%2012-m&cmpt=q](http://www.google.com/trends/explore?q=Angie's%20list%2C%20yelp&date=today%2012-m&cmpt=q)  
As for Home Advisors, even though the company went through a full company rebranding effort just four months ago, they still have more web traffic than Angie’s.

Is this your site? [Send your traffic data to Compete](#) to improve your numbers and get a free, third-party certified report.



**UNIQUE VISITORS**

4,144,063

41.86% ▲

14,463.57% ▲

**RANK (BY UVS)**

471

180 ▲

64,436 ▲

**COMPETITIVE RANK (UVS)**

- homeadvisor.com
- southerntraditionsfloors.com
- sitepro1.com
- squeakyfloor.com
- flexitec.org

View sites similar to homeadvisor.com

**Need more data, more often?**

Integrate Compete metrics anywhere with the Compete API.

[Learn More](#)

Is this your site? [Send your traffic data to Compete](#) to improve your numbers and get a free, third-party certified report.



**UNIQUE VISITORS**

3,907,160

22.64% ▲

51.33% ▲

**RANK (BY UVS)**

502

86 ▲

230 ▲

**COMPETITIVE RANK (UVS)**

- yelp.com
- local.yahoo.com
- healthgrades.com
- bbb.org
- angieslist.com

View sites similar to angieslist.com

**Need more data, more often?**

Integrate Compete metrics anywhere with the Compete API.

[Learn More](#)

# “Angie ... Angie ... when will those clouds all disappear?”



## The Most Amazing CEO Quote Ever!!!

Picture this:

William Oesterle, CEO and co-founder of Angie’s List, which has been unprofitable for 15 years, and from which he has sold out over \$9 million in insider stock since its 2011 IPO, comes on CNBC for his very first time. And what does he say?



(click to play)

“Profitability is a funny metric for us.”

-- William Oesterle, CEO  
Angie’s List

We are not making this up! We couldn’t possibly make this up. Wow!

# “Angie ... Angie ... where will it lead us from here?”



## Conclusion

Pets.com and Etoys.com were decent ideas, just bad businesses. Angie's List is a stupid idea **and** a bad business.

Why will anything change? What concrete steps are management at Angie's List actually executing to make this business model more viral, more relevant, more compelling?



Running a phone room to obtain subscribers' credit card authorization, then billing them for renewals at higher rates until they notice, is not a sustainable business model. (Employee morale is terrible, judging from online posts.)



Increasing your accrued unvoiced liabilities for one quarter to show that you can lose less money than expected ... is not a business model.



Whereas the bulls might point to the hope that newer markets grow to the size of existing markets, that might hold true if the underlying business was compelling and just needed exposure and scalability. But in the case of Angie's List, the underlying business is in decline, and no accounting gimmickry can turn that around.

### **Cautious Investing to All**