June 12, 2013

This Company's Story of its Path to Profitability Does Not Add Up.

There are lies, damned lies… and Angie's List

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. As promised, this report will explain how ANGI is manipulating their numbers to Wall Street to prove that they actually have a better business than they really have – and they still lose money … wow, do we live in "interesting times"!

> In this piece, Citron publishes a detailed financial critique of the company's statements about its purported path to profitability.
>
> For more commentary about the hopelessness of the business model and competitive landscape, read here.

How Does a Company with 15 Years of Operating Losses Chart a Path to Profitability?

The core of Angie's thesis about coming profitability is based on its ability to drastically raise advertising rates for service providers. Here is one sign of this impact emerging in the public eye:

"The last time we priced it, the package they were describing to my IT group was somewhere in $12,000 to $15,000 range," said Joyce.
…
[another service provider] … really thought the site was just performance-based ... until he got a call from Angie's List, asking him to advertise: "It was in excess of $50,000 to be ranked above companies that had lower rankings than we did."

http://www.nbc12.com/story/22124763/12-investigates-angies-list-rankings

Numbers Don't Lie: Angie's List Core Thesis -- Establishing Recurring Revenue Profitably -- is a Lie

This report zeroes in on the main premise of analysts and fund managers who have built an analysis of a profitable future for Angie's. Angie's management has been casting a fictitious future of profits from recurring revenues. The reality is that investors' money is plowed into bloated phone-room sales expense, which consumes all of its current revenues.

Wall Street always loves and rewards recurring revenue, because it promises an income stream that levitates from the expense to maintain it – **but only if it is truly recurring**. Citron now presents an analysis drawn from Angie's own filed reports and public statements that proves this rosy picture of this future is knowingly false.

The key to the flawed investment thesis in Angie's List is a **false picture of service provider renewal rates**, as painted by the company. Citron will now prove the falsity of that presumption. The company has been dancing around this key figure in conference call after conference call. Citron now lays out the full analysis to prove the company's disclosures cannot be true.

The heart of the bull case investment thesis is this: While acquisitions of new service providers is a breakeven proposition, they renew at rates of 70% or more, and because of rate increases, the revenue from existing service providers comes in at 100% or higher, year over year, and has an 80% profit margin. This thesis is now so persuasive to the ANGI bulls that they seem inclined to disregard all discussion of the value proposition or legitimacy of its business model, and all the red flags that go with that discussion. So we now challenge their thesis head-on.

First, Citron quotes ANGI's making this claim over and over. If the above statement is why you are an investor in Angie's list, Citron suggests you read this report … sitting down.

" And so our service provider renewal rates are right around -- all in, around 70% -- 65% to 70%, depending on the time of year.

-- Bill Oesterle, Angie's List CEO
BAML Tech Conference 6/7/2012

Question -- … So your statement that they **renew at over 100%** means that heading into next year if I use $100 million as a round number, then I'm going to have more than $100 million that comes at a margin of 80% or something along those lines?
Answer – Bill Oesterle: That is I think a very accurate characterization of how the math works.

Question – Jordan Rohan: Okay. And in the past, you said that instead of just over 100% you've given the number I think pre-IPO and in the prospectus it **was 117%. Is it significantly over 100% when it renews? Is it greater than 117%, which was a publicly stated number?**
Answer – Bill Oesterle: It's a -- our renewal percentages have been consistent, and at times better than consistent this year. So, anything that we have stated remains true.

Question – Jordan Rohan: Okay. So if I use $100 million and consistent or better would get me to something over $117 million that has an 80% contribution roughly? Plus whatever you – right, next you're at a push for originated business?
Answer – Bill Oesterle: I don't hear anything in the logic there that we would need to correct.

3rd Quarter 2012 Conference call

Bill Oesterle: "Yes, so the year one -- essentially year one net contribution is close to a push, roughly zero. But once you take into consideration commissions, and then all of the allocated service provider marketing, and the overhead of that department, it's effectively a push. There's a few points of margin in there."

-- Q3 2012 Earnings call

We have become increasingly sophisticated with that and that is manifesting itself in our ability to price optimally. Occasionally service providers don't like that. We were driving price increases through the recession, this is 2009, 2010, we were driving 50%, 60% contract price increases with the service companies because we deserved it because we had all those additional households to sell them, and in 2009 and 2010 it was pretty difficult to explain to a service company that your – the contract price is going up 60%, 70% but we were able to do it because we had the product to do it and as a result of that our **dollar renewal rate continued to be well above the 100% from the service providers**. So when we originate a contract, in year two it's likely to originate at something well over 100% because they're buying additional households and additional services that makes it whole lot easier to keep up with the member growth rate, when you're able to drive contract increases the way that we have over last couple of years.

-- Bill Oesterle, CEO: B of A Merrill Lynch Conference 6/4/2013

So if service providers renew at a rate of 65% or 70%, after one year, 30% or 35% are leaving. And having run for the exits, we don't think those folks will be back so fast, either. But let's not quibble about the churn rate the company has steadfastly refused to disclose. Let's look at the decisive metric, which is dollar renewals.

The problem is that Angies' claim doesn't hold up to its own disclosed financial statements. Below Citron presents results from a basic analysis to apply these rates to Angie's filed operating results.

The arithmetic is straightforward. It takes the company's disclosed numbers, as well as the all-important guidance of percentage dollar revenue growth on renewals, and tries to tie them to the numbers disclosed 12 months later. The churn rate used comes directly from the company's comments about churn.

Income Statement

Fiscal Year End 12/31	11-Mar	11-Jun	11-Sep	11-Dec	12-Mar	12-Jun	12-Sep	12-Dec	13-Mar
Service Provider Rev	9,934	11,619	12,969	15,056	17,348	21,781	25,453	28,552	32,834

Scenario 1:
117% Dollar Renewal

Dollar Renewal Rate	117%	117%	117%	117%	117%	117%	117%	117%	117%
Renewed Business	8,426	9,716	10,529	10,980	11,623	13,594	15,174	17,616	20,297
YoY Growth					*37.9%*	*39.9%*	*44.1%*	*60.4%*	*74.6%*
New SP Revenue	1,508	1,903	2,440	4,076	5,725	8,187	10,279	10,937	12,537
Selling Expense	-6,084	-7,572	-8,736	-11,423	-12,409	-14,325	-16,240	-15,622	-19,645
Margin on Renewal	80%	80%	80%	80%	80%	80%	80%	80%	80%
Profit: Renew Bus	6,741	7,773	8,423	8,784	9,298	10,875	12,139	14,092	16,238
Costs: Renew Bus	-1,685	-1,943	-2,106	-2,196	-2,325	-2,719	-3,035	-3,523	-4,059
Remaining Sell Exp	-4,399	-5,629	-6,630	-9,227	-10,084	-11,606	-13,205	-12,099	-15,586
Prof/(Loss) New SP Revs	-2,891	-3,726	-4,190	-5,151	-4,359	-3,419	-2,926	-1,162	-3,049
Margin New SP Revenue	-191.8%	-195.7%	-171.7%	-126.4%	-76.1%	-41.8%	-28.5%	-10.6%	-24.3%

Scenario 2:
150% Dollar Renewal

Dollar Renewal Rate	150%	150%	150%	150%	150%	150%	150%	150%	150%
Renewed Business	10,803	12,456	13,499	14,078	14,901	17,429	19,454	22,584	26,022
YoY Growth					*37.90%*	*39.90%*	*44.10%*	*60.40%*	*74.60%*
New SP Revenue	-869	-837	-530	979	2,447	4,353	6,000	5,968	6,812
Selling Expense	-6,084	-7,572	-8,736	-11,423	-12,409	-14,325	-16,240	-15,622	-19,645
Margin on Renewal	80%	80%	80%	80%	80%	80%	80%	80%	80%
Profit: Renew Bus	8,642	9,965	10,799	11,262	11,921	13,943	15,563	18,067	20,818
Costs: Renew Bus	-2,161	-2,491	-2,700	-2,816	-2,980	-3,486	-3,891	-4,517	-5,204
Remaining Sell Exp	-3,923	-5,081	-6,036	-8,608	-9,429	-10,839	-12,349	-11,105	-14,441
Prof/(Loss) New SP Revs	-4,792	-5,918	-6,566	-7,629	-6,982	-6,487	-6,350	-5,137	-7,629
Margin New SP Revenue	N/A	N/A	N/A	-779.7%	-285.3%	-149.0%	-105.8%	-86.1%	-112.0%

Walk-through on the above table:

We start with the total service provider revenue for the first quarter 2011 [A], and 2012 [L], project it forward for the following year, by multiplying it by the 117% "dollar renewal rate" per company guidance at [B] / [M].

That lets us calculate the new service provider revenue by subtraction at [C] / [N] …

Then the gross profit and cost of renewals based on the company provided margin of 80% at [D] / [O]; then by subtraction, the remaining costs, which were to spent acquire new service providers at [E] / [P] .

We then subtract to generate the LOSSES on acquiring new service providers at [F] and [Q].

And these are just the direct costs – the G&A expenses are not allocated in this analysis!

Using the higher threshold 150%, we repeat with [G], [H], [I], [J] and [K], and of course the loss on new service providers is even greater, as it is in 2012 referring to [R], [S], [T], [U], and [V].

For both years, this analysis disproves the company's core sustainability of new revenue claim that it can break even on new service providers while generating 80% margins on renewals at rates over 100%. These new revenues are coming at a high price. The company has been burning money acquiring new service providers (3 to 5 million at 117% renewal, or 5 to 7 million at 150% renewal) in every single quarter over the last two years, in direct contradiction to every comment they have made to analysts on the topic.

Citron conclusion #1:

The preceding analysis proves that the company's characterization of its core revenue model is untruthful, and has been **misleading** over the span of at least the last 8 quarters, compared to company officers' statements in conference calls.

Either the company is nowhere near break-even on new business, or renewal margin for service providers far less than 80%. The company's own numbers disprove it. All the analysts' forecasting models are wrong.

Eye-Popping and Unsustainable Service Provider Rate Increases

Next, we use the same year-to-year analysts to look at average service provider revenue, from the number of service providers disclosed. Again, it's simple math, just follow the arrows from year to year, multiplying by the percentages given by the company in conference calls.

We increase the Service Provider renewal revenue based on the percentages provided to the analysts, and make a reasonable estimate as to the SP renewal rate. This lets us calculate a rate increase for the renewing service provider cohort. (* SP = Service Provider)

Income Statement									
Fiscal Year End 12/31	**11-Mar**	**11-Jun**	**11-Sep**	**11-Dec**	**12-Mar**	**12-Jun**	**12-Sep**	**12-Dec**	**13-Mar**
Ending SP's	17,577	19,750	21,927	24,095	27,100	29,930	33,209	35,952	39,265
SP Contract Value *	50,303	55,647	65,104	73,609	87,335	101,719	119,091	132,646	150,262
Avg Contract Val per SP	3,083	2,982	3,124	3,199	3,412	3,567	3,772	3,836	3,995
Reported Price Increase	*1.7%*	*3.1%*	*7.4%*	*5.6%*	*10.7%*	*19.6%*	*20.7%*	*19.9%*	*17.1%*
Scenario 1 117% Dollar Renewal									
Dollar Renewal Rate	117%	117%	117%	117%	117%	117%	117%	117%	117%
Dollar Renewed	39,043	40,530	43,760	50,369	58,855	65,107	76,172	86,123	102,182
SP Renewal Rate	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%
SP's # after Renewal	7,537	8,031	8,683	9,789	11,425	12,838	14,253	15,662	17,615
Average Contract Value for Renewed SPs	5,180	5,046	5,040	5,145	5,151	5,072	5,344	5,499	5,801
Effective Price Increase	**70.8%**	**74.5%**	**73.2%**	**69.8%**	**67.1%**	**70.1%**	**71.1%**	**71.9%**	**70.0%**
Scenario 2 - 150% Dollar Renewal									
Dollar Renewal Rate	150%	150%	150%	150%	150%	150%	150%	150%	150%
Dollar Renewed	50,055	51,962	56,103	64,575	75,455	83,471	97,656	110,414	131,003
SP Renewal Rate	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%	65.0%
SP's # after Renewal	7,537	8,031	8,683	9,789	11,425	12,838	14,253	15,662	17,615
Average Contract Value for Renewed SPs	6,641	6,470	6,461	6,597	6,604	6,502	6,852	7,050	7,437
Effective Price Increase	**119.0%**	**123.7%**	**122.1%**	**117.7%**	**114.2%**	**118.1%**	**119.3%**	**120.4%**	**118.0%**

"He really thought the site was just performance-based... until he got a call from Angie's List, asking him to advertise:

> "It was in excess of $50,000 to be ranked above companies that had lower rankings than we did."
>
> -- *TV news investigation of Angie's List Service Provider Advertising Fees*

http://www.nbc12.com/story/22124763/12-investigates-angies-list-rankings

Citron Conclusion #2:

If we use the company's claim of breakeven year 1 on service providers, a 64% churn and a 117% or 150% dollar renewal, the preceding analysis proves that the company is imposing **high double-digit or even triple digit rate increases** on service provider renewals -- at least 70%, and as high as 120% if its renewal income disclosures are to be believed. Clearly this is not sustainable … and contextualizes the news story linked above regarding the outrageous $15,000 to $50,000 placement fees being investigated by a local TV station.

For service providers who absorb that 70% rate increase as part of the year 2 cohort, what happens when they get hit with **another 70% rate increase in year 3?** Clearly aggressive year 2 rate increases rope in Service Providers who feel they have "invested" in positive reviews to become noticed on Angie's List. But as the Service providers are met with steep listing fee increases, combined with demands for discounts, 1/3rd are bailing immediately. The ones that stay on **create a new cohort:** what was a run of the mill expense is now double or more, a real line item cost. Service providers are going to be a lot more careful in year 3 evaluating this cost. Even more will churn out. As Angie's List revenues come more and more from service providers and less from member subscriptions, what is the threshold at which Service Providers dump Angie's List for better ROI on advertising dollars?

Is Angie's List pricing model at risk of being perceived as a bait-and-switch scheme by legitimate service providers? The sustainability of these rate increases cannot be determined without a churn rate by cohort – and Angie's doesn't provide it.

Free Memberships: Fact vs Fiction

When Angie's List enters a new market, it discloses it offers free memberships "for a few months" … sometimes referring to this number as "**de minimis**":

From Q1 2013 10-Q:

Cohort	# of Markets	Avg. Revenue/ Market (1)	Membership Revenue/Paid Membership (2)	Service Provider Revenue/Paid Membership (3)	Avg. Marketing Expense/ Market (4)	Total Paid Memberships (5)	Estimated Penetration Rate (6)	Annual Membership Growth Rate (7)
Pre-2003	10	$5,092,477	$ 42.49	$ 113.35	$ 1,272,990	381,785	9.1%	40%
2003-2007	35	3,108,535	37.26	89.24	1,318,639	1,064,129	7.0%	62%
2008-2010	103	154,654	16.38	27.09	186,423	454,629	7.2%	63%
Post 2010	81	12,756	13.39	18.66	52,619	51,231	3.6%	*
Total	229					1,951,774		

* Not meaningful

(1) Average revenue per market is calculated by dividing the revenue recognized for the markets in a given cohort by the number of markets in the cohort at period end.

(2) Membership revenue per paid membership is calculated as our membership revenue in the cohort divided by the average number of paid memberships in the cohort. We calculate this average per market to facilitate comparisons among cohorts, but it is not intended to represent typical characteristics of actual markets within the cohort.

(3) Service provider revenue per paid membership is calculated as service provider revenue in the cohort divided by the average number of paid memberships in the cohort.

(4) Average marketing expense per market is calculated first by allocating marketing expense to each cohort based on the percentage of our total target demographic for all markets in such cohort, as determined by third-party data, and then dividing the allocated cohort marketing expense by the number of markets in the cohort at period end. We calculate this average per market to facilitate comparisons among cohorts, but it is not intended to represent typical characteristics of actual markets within the cohort. According to a March 2013 demographic study by Merkle Inc. that we commissioned, there were approximately 31 million households in the United States in our target demographic, which consists of homeowners aged 35 to 64 with an annual household income of at least $75,000. Approximately 27 million of these households were in our markets. The average number of households per market in our demographic target was 425,000, 435,000, 60,000 and 20,000 for the pre-2003, 2003-2007, 2008-2010 and post-2010 cohorts, respectively.

(5) Includes total paid memberships as of March 31, 2013. Total paid memberships in each cohort includes a de minimis number of complimentary memberships in our paid markets for the period presented. All revenue and paid memberships relating to locations that were not identified as part of a specific market are included in the 2008-2010 cohort.

(6) Estimated penetration rate is calculated by dividing the number of paid memberships in a given cohort as of March 31, 2013 by the number of households meeting our target demographic criteria in such cohort.

(7) Annual membership growth rate is the rate of increase in the total number of paid memberships in the cohort between March 31, 2013 and March 31, 2012.

http://files.shareholder.com/downloads/AMDA-LKYTL/2450519471x0xS1437749-13-4711/1491778/filing.pdf

Compare this to the Cohort Analysis from the August 25, 2011 S-1:

Market Cohort Analysis

To analyze our progress in executing our expansion plan, we compile certain financial and operating data regarding markets we have entered grouped by the years in which the markets transitioned to paid membership status. The table below summarizes this data for 2010 by the following cohorts. The pre-2003 cohort includes our ten most established markets, where we initially built out our business model. The markets in this cohort include several mid-sized urban markets in the midwest as well as Chicago and Boston. The 2003 through 2007 cohort includes the first major subset of markets, including many of our largest potential markets, that we targeted in our national expansion strategy. The markets in these cohorts have begun to achieve penetration rates that allow us to transition beyond introductory membership and advertising rates. The post-2007 cohort includes markets that have most recently converted to paid status and that still have predominantly introductory membership and advertising rates. The markets in this cohort generally are smaller markets that we entered to fill out our national presence.

Cohort	# of Markets	Avg. Revenue/ Market(1)	Membership Revenue/ Paid Membership(2)	Service Provider Revenue/ Paid Membership(3)	Avg. Marketing Expense/ Market(4)	Total Paid Memberships(5)	Estimated Penetration Rate(6)	Annual Membership Growth Rate(7)
Pre-2003	10	$2,498,484	$ 60.16	$ 104.41	$496,819	168,947	4.1%	25%
2003-2007	35	909,451	53.26	62.91	510,450	324,531	2.2%	45%
Post-2007	103	21,588	17.46	9.82	71,874	109,404	1.8%	104%
Total	148					602,882		

http://www.sec.gov/Archives/edgar/data/1491778/000119312511232387/ds1.htm

So while Angie's is disclosing "Membership Revenue / Paid Membership, it doesn't include monthly members nor does it include free memberships.

Yet, analysis of individual markets indicates free memberships appear to be a lot more common than "de minimis" would suggest, and hang around a lot longer than "a few months. Per their website, there is a selection that displays pricing in any zip code: http://my.angieslist.com/angieslist/visitor/price.aspx

For instance, you can enter 98801 – Wenatchee WA, and get pricing of zero:

Angie's list. Reviews you can trust®

Join Now | Sign In | Business Owners

Quick Tour | How It Works | FAQ | In the Press | Articles | The Big Deal | Contact Us | 1-888-888-5478

New Membership Fees for our WENATCHEE area

Angie's List is new to your area. We offer a free one-year membership for the first few months we're in your area. Members who sign up during this time period help us build the List. After your first year, you'll have the option, not obligation, to renew your membership at the regular monthly or annual price.

Join Now

Already a member? Sign in to see your pricing and account information.

Not the area you were looking for? Change the area by entering a different zip code below.

Zip Code [ ] Change

Angie's List Bundle: **Member favorite!** The most services at the best price

Plan	Dues	Signup Fee	Total	Discount
Monthly	$0.00	$0.00	$0.00	0%
1 year	$0.00	$0.00	$0.00	0%
2 years	$0.00	$0.00	$0.00	0%
3 years	$0.00	$0.00	$0.00	0%
4 years	$0.00	$0.00	$0.00	0%

You can go here, enter [98801] and see they entered the Wenatchee WA market in February 2012, **and it's still free – 16 months later.** http://business.angieslist.com/Visitor/AngiesList101/Locations/

Same for Wooster, OH. [44691]
And Dubuque, IO. [52001]

… And who knows how many more ...

Free multi-year subscriber memberships on Angie's List are not "**de minimis**", they appear to be common. Meanwhile, Angie's list is arguing to its service providers that they should pay up for better display ranking in their list, and "zone down" to more precise zip codes. But in all the areas where membership is free or almost free, are they misrepresenting the value of service providers paying up?

If they weren't adding free members in large numbers, why would their average revenues per membership be declining so rapidly?

Citron Conclusion #3: Lying to Service Providers about Number of Paid Members

Angie's List is building its subscriber base using **a lot more free 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.

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.

Citron Conclusion #4: 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…

Reality Check: If you want to invest in this space, check out this credible comparable:

In our last report, Citron spotlighted HomeAdvisor.com, which runs a lead generation / service provider referral business the right way: by independently verifying business licensing, performing criminal, bankruptcy and other background checks on applying service providers, and providing competitive quotes with a single request.

Citron now compares Angie's List to the business model that it had a 15 year head-start and should have adopted long before now. **ReachLocal** (NASDAQ:RLOC) has a business model that sports an intelligent approach to qualifying service providers, establishing long-term value add relationships with them, and connecting them to consumers in the most cost-effective ways. The thoughtfulness of this approach puts Angie's List to utter shame.

We'll leave the comparisons for the serious investors who have read this far, but leave you with this table:

	ReachLocal (RLOC)	Angie's List (ANGI)
Revenues	473.17 m	176.88 m
Market Cap	423.70 million	1.50 billion
Price / Sales	**.90**	**8.25**

At a similar Price/Sales ratio as ReachLocal.com, ANGI would be $3 per share.

Do This Math!

According to CEO Oesterle, There are approximately 300,000 eligible (“A” and “B” rated service providers) nationally.

> Bill Oesterle: “"We have ratings on something like 2 million companies, and **yet there are only 300,000 companies that are eligible (to advertise)** because of their grade and the number of current reports," Oesterle said..”
>
> *-- Bill Oesterle, CEO*

http://www.reuters.com/article/2013/05/23/us-angieslist-interview-idUSBRE94M19S20130523

In Angie’s telesales room, 500 of the 750 telemarketers are assigned to get new service providers to sign up. So if each of the 500 telemarketers makes 50 calls a day (a fairly modest load), they entire new service provider solicitation team is calling 125,000 service providers a week. So if the maximum A and B list candidates are double what they now list, they’re each getting pinged with an **outbound call every two-and-a-half weeks**. No wonder former Angie’s List employees are saying their biggest problem is “not enough prospects left to call”. And it also explains Angie’s new program: offering to call Service Providers own customers, to survey them about completed jobs, **and writing the service provider review for the subscriber** …another highly questionable ethical stance that is an early tell of saturation.
http://business.angieslist.com/pdfs/Fetch11.pdf

And the disclosure of which reviews are the “**real**” ones written by **real** people, and prose written by a telemarketer from phone survey results? **This isn’t disclosed to the subscribers!**

Conclusion

This report details the fallacy of Angie’s List core management premise regarding the promise of upcoming profitability: That Service Providers can be added on a breakeven basis, and renew at 117% of year-one revenue and 80% gross margins, simply cannot be true. It doesn’t bear out in the last 8 quarters of the company’s reported financials. And Angie’s management must know this...better than anyone.

Further, this model depends on renewing service providers to take year-after-year 70% to 125% revenue increases to overcome the 1/3rd of new service providers who churn out after year 1. But who replaces the ones who churn out after year 2?

Citron challenges any analyst or the company’s new CFO (the third one in the last 3 years?!?) to either defend all the above statements or restate the company’s description of its revenue model for service providers. And while they are at it, an unambiguous statement about churn rates would be much appreciated.

Meanwhile, subscription revenue as a percentage of gross revenues has been falling every year, and clearly is now just a scant 18% of gross revenues. Subscriber numbers are being used primarily as an argument to induce service providers to advertise, but the loyalty of subscribers to Angie’s brand name is now apparently weaker than ever.

You financial analysts should already know that the $10 million Angie's List claimed it generated from operations was not a function of profits, but rather a one-time adjustment, due to 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. Book value is now negative $100,000.

So aside from temporarily manipulating expenses to eke out a small profit for a quarter or two, who will step up and demonstrate a model that justifies a **$1.6 Billion dollar market cap without commensurate profits**, and a path to achieving it that is anything more than fiction?

The collapse in performance will appear over time. 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 readily return to the fold. Meanwhile, annual advertising increases of 75% - 125% on service providers may have caught a one-time updraft, but can't possibly be sustainable either. It remains Citron's opinion that service providers will churn out at increasing rates as further renewals won't be cost justified, and other competitors gain traction.

In fact, Angie's needs to track and report service provider churn rates for the first renewal-after-big-rate-increase cohort -- 12 months after these extraordinary rate increases, as their entire story depends on the sustainability of these rates. Don't hold your breath.

Citron challenges any analyst to refute the bean-counting in points #1, #2 and #3 above, and will publish any credible replies. We challenge any analyst to refute the conclusions published above based on a credible business model that doesn't take until 2019 to justify a multiple.

Cautious Investing to All.

Meanwhile, if you can find a publicly-traded online business with a worse reputation among the internet posting public, we'd sure like to know what it is. Check out our other piece on Angie's List reputational risk.