More Bad Adtech

December 2018

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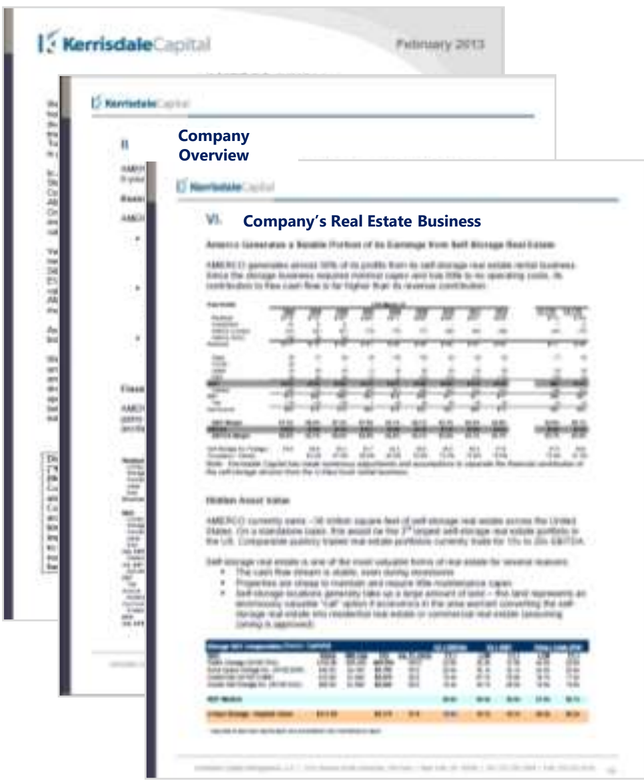
INTRODUCTION

- Kerrisdale Capital is a long/short investment manager
- We specialize in **RESEARCH ACTIVISM**
  - On certain investments, Kerrisdale compiles and distributes in-depth reports and undertakes other measures to correct market misperceptions
- Launched with less than $1m in July 2009. Has managed $100m+ since 2012

SHORT ACTIVISM DISTRIBUTION

Kerrisdale's research distribution includes more than 6,750 readers sourced from our blog (**www.kerrisdalecap.com**) and over 24,750 Twitter followers as of April 30, 2018

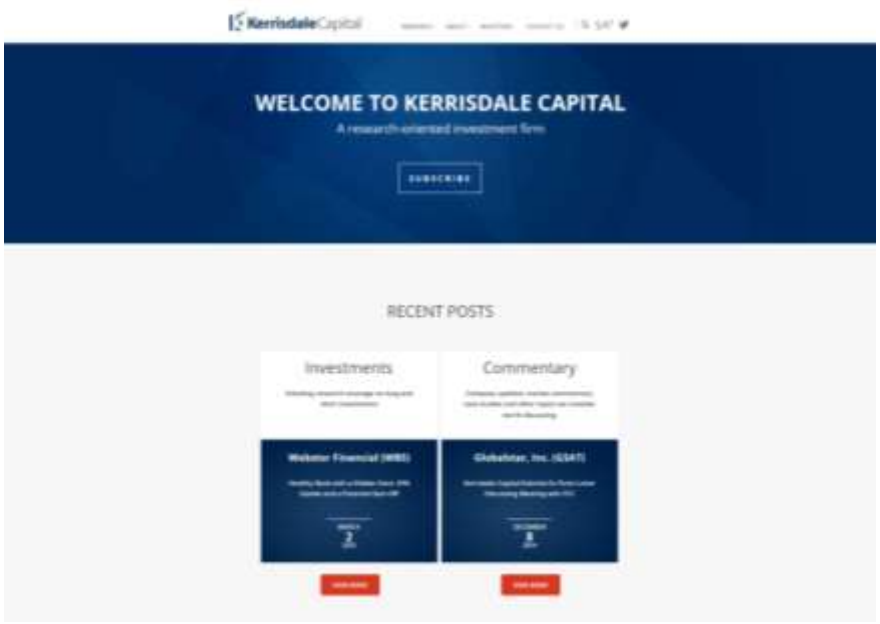


SHORT ACTIVISM DISTRIBUTION

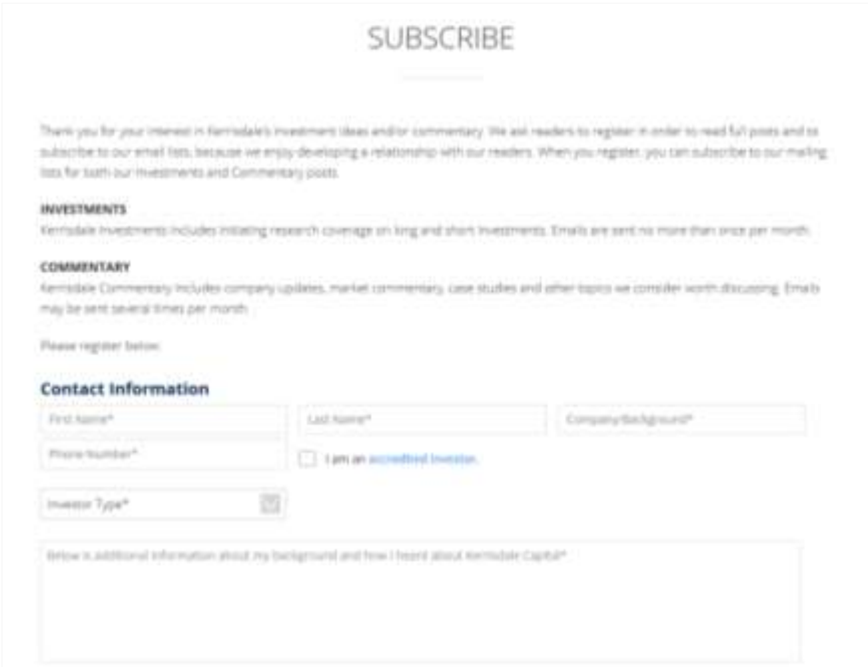
THREE MOST RECENT SHORT ACTIVISM CAMPAIGNS

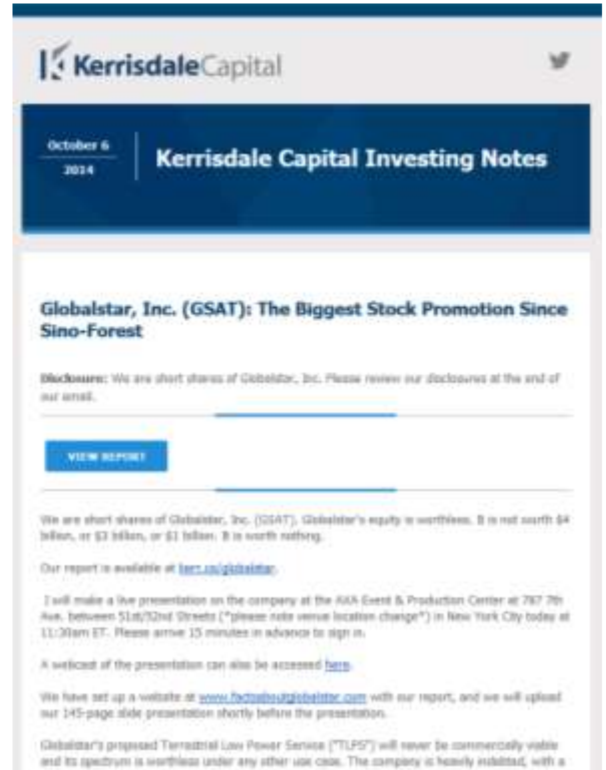
- **The St. Joe Company (JOE) - SHORT**
  - Florida Panhandle land developer with overhyped real estate holdings and a controlling shareholder who will soon be forced to liquidate part of his investment
  - After more than a decade of luring investors with the promise of unlocking value in large tracts of undeveloped land in rural forest and swamp, even the most aggressive assumptions for potential development point to much lower stock price
- **QuinStreet (QNST) - SHORT**
  - Web-1.0 adtech firm that acts as a middleman between online advertisers and niche web sites
  - Clunky technology, proprietary web sites nowhere to be found in top search results, commoditized click-monetization, and affiliate relationships fleeting
  - Now trading at 60X operating profit, it’s no surprise CEO, CFO recently selling shares
- **Proteostasis Therapeutics (PTI) - SHORT**
  - Clinical-stage biotech with lead drug aiming to treat cystic fibrosis
  - Stock ran up on unimportant breakthrough-therapy designation, but underlying clinical data is terrible, only appeared effective relative to bad placebo group
  - Day before our publication the company announced secondary offering – apparently as eager to sell shares at recent prices as we are

DISTRIBUTION CHANNELS
KERRISDALE WEBSITE



DISTRIBUTION CHANNELS
EMAIL LIST

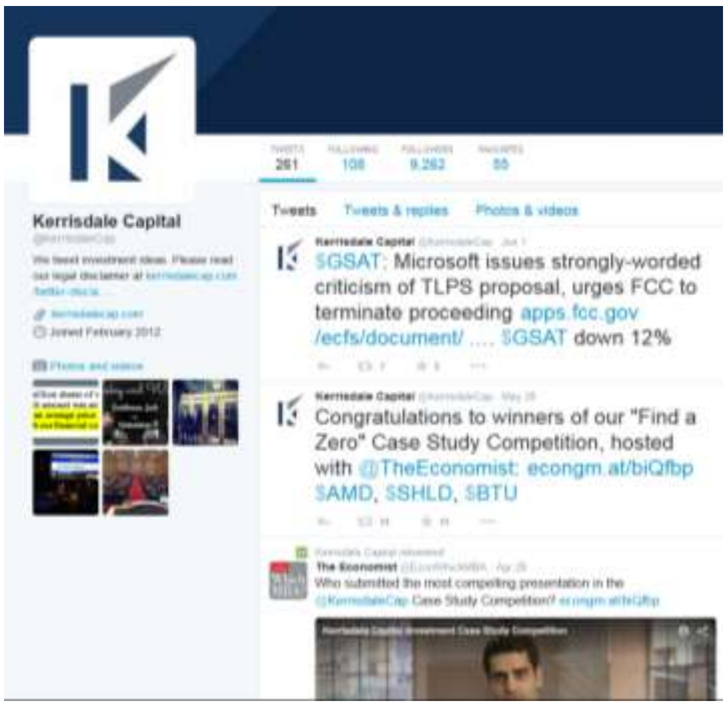




GSAT email:
4,000 subscribers
53% open rate

DISTRIBUTION CHANNELS
TWITTER

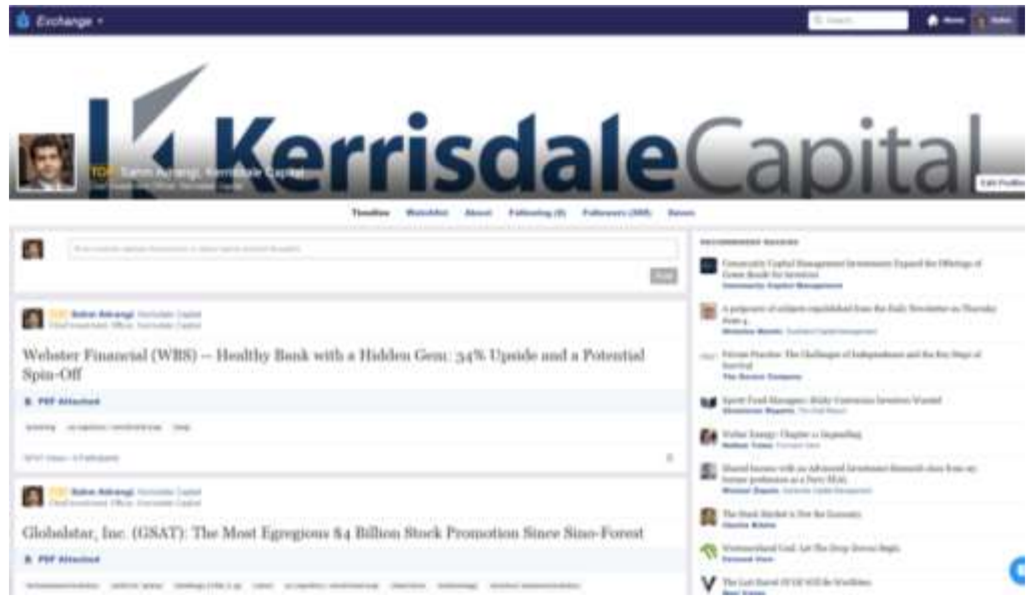
@kerrisdalecap



DISTRIBUTION CHANNELS
SEEKING ALPHA + HVST.COM

Seeking Alpha

harvest



1,500 users saw our GSAT article

513,000 users received our GSAT article

DISTRIBUTION CHANNELS
MEDIA OUTREACH

Major media outlets regularly report on Kerrisdale's campaigns

WALL STREET JOURNAL

"Telecom Straight Path's Shares Hit by Short Seller's Report"

CNBC

"The $100 million short case against DISH Network"

Bloomberg

"Bavarian Nordic Targeted by Short Seller's Drug Critique"

The New York Times

"Short-Seller Sets Sights on Globalstar, a Satellite Phone Company"

REUTERS

"Zafgen stock tumbles after hedge fund reveals short position"

DISTRIBUTION CHANNELS
LIVE PRESENTATION, VIDEOS + CONFERENCES CALLS

Live Presentation on GSAT
- 3-hr presentation
- 100 attendees

Webcast on GSAT
- 1,700 live viewers
- 1000+ viewers for archived video

Video Presentations
- Videos will be part of our future strategy to share our thesis

Follow-up conferences calls on GSAT
- Expert Q&As
- Responses to Globalstar rebuttal

DISTRIBUTION CHANNELS
CREATIVE MULTIMEDIA

Kerrisdale works with creative agencies to create engaging content to promote our research.

MAKESPECTRUMGREATAGAIN.COM

GLOBALSTAR TRAILER

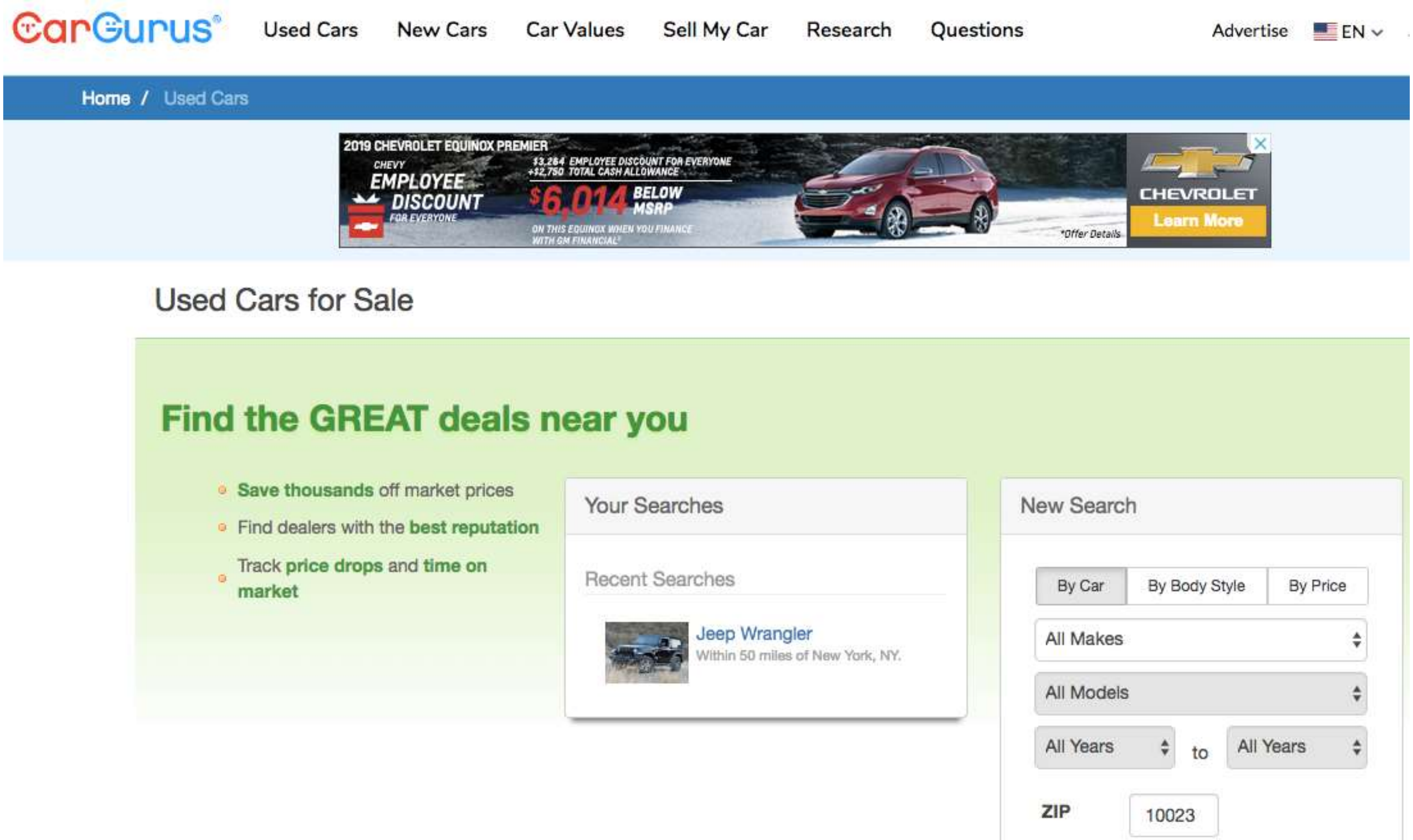
ADVANCED BATTERY TECHNOLOGY CALL

CarGurus, Inc.

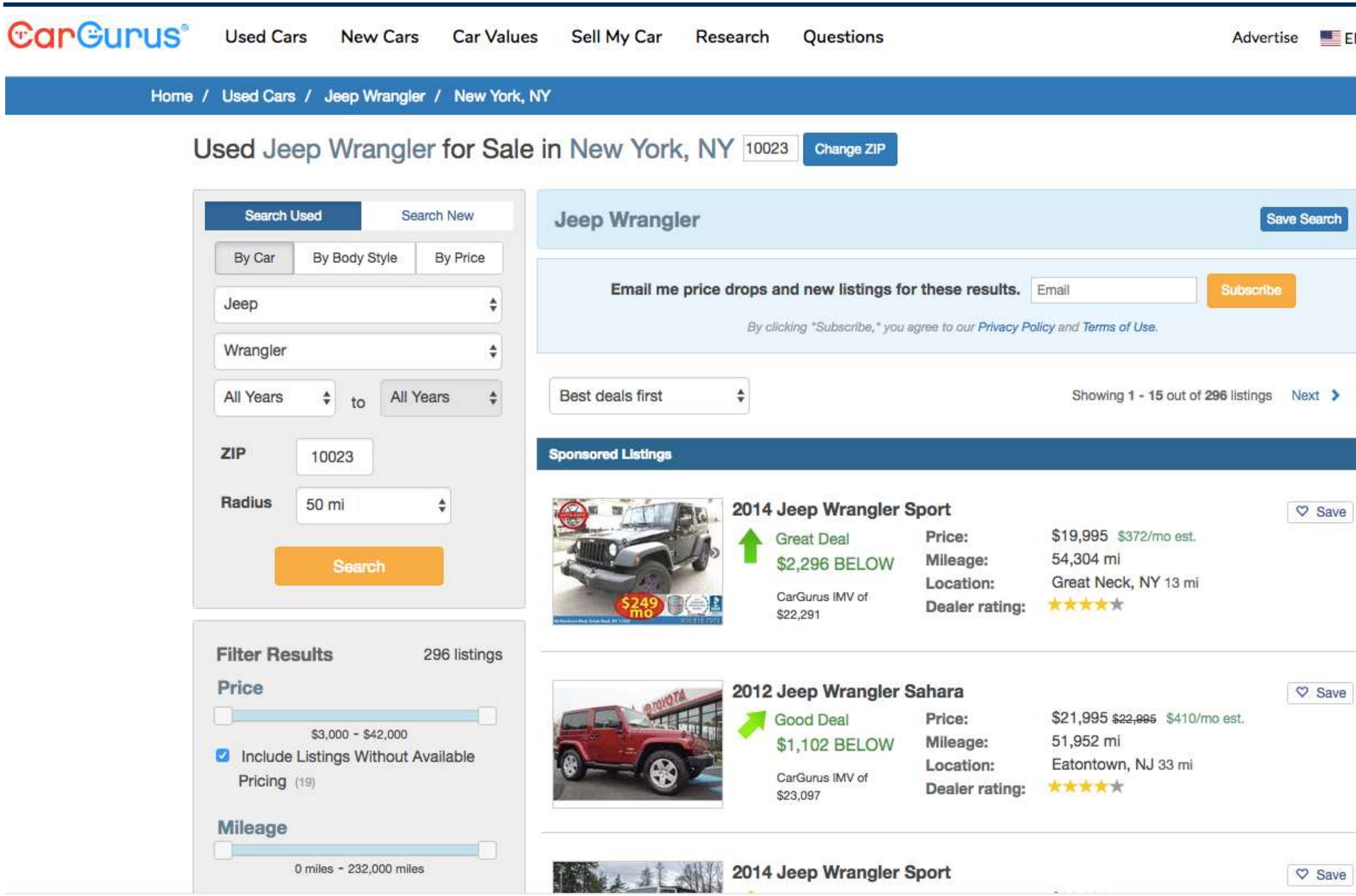
CarGurus, Inc.

- Online automotive marketplace connecting buyers and sellers of new and used cars
- Founded by Langley Steinert, who was one of the founders of TripAdvisor in the early 2000s and then sold it to Expedia
- IPO'd at $16 per share, and was up 75% on the first day, closing at $29. Since then, it's continued to appreciate, and today sits around $40
- Current enterprise value of $4.4bn
- Kerrisdale is short CARG, see disclosures at kerrisdalecap.com/legal-disclaimer-3

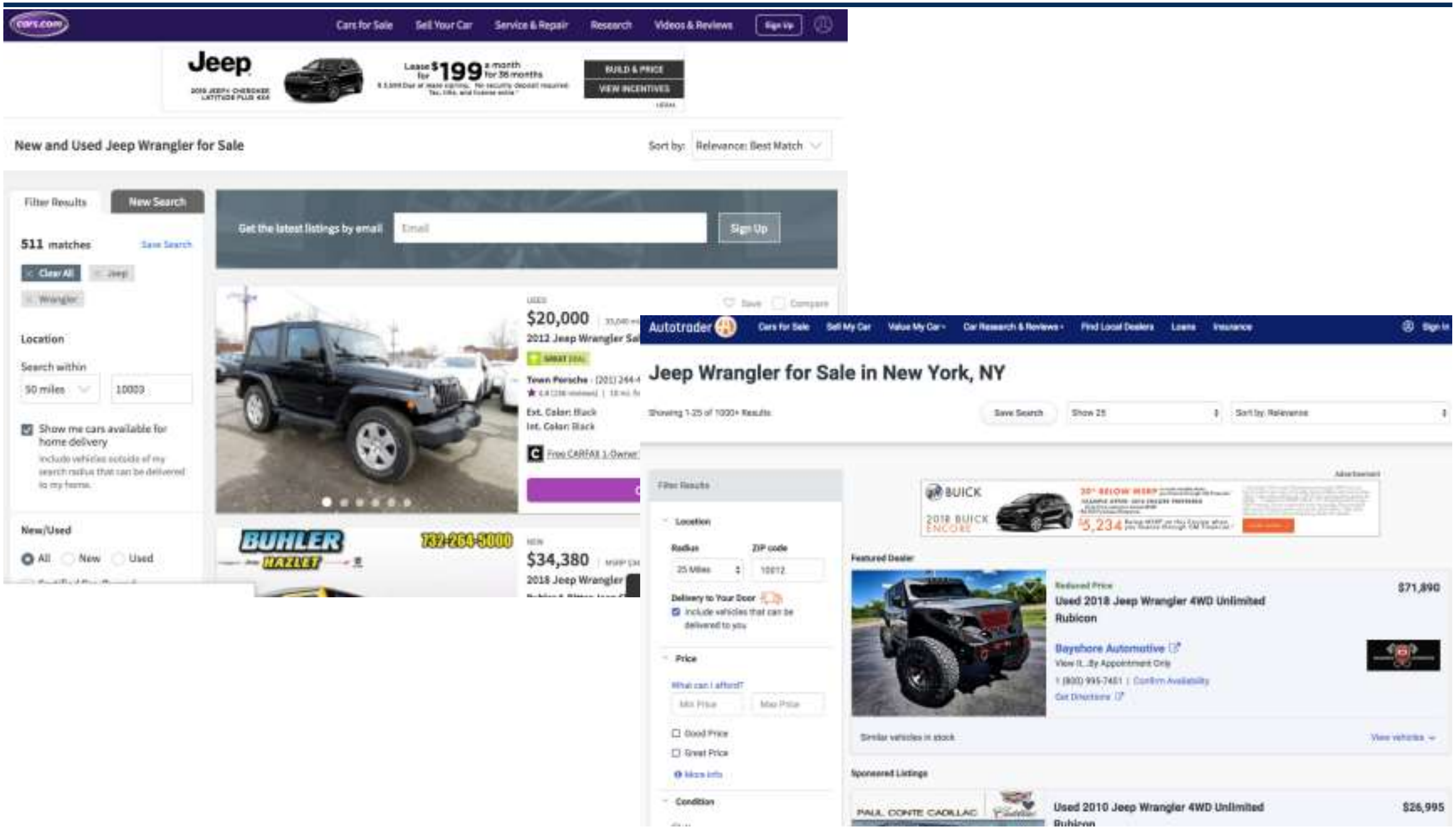
CARG homepage



CARG Search Results page



Competitor Search Results Pages



It's a commodity product. To consumers, the sites look the same

Competitors

- Competitors in online automotive listing space:
  - Cars.com ($1.7bn mkt cap, $2.4bn enterprise value)
  - Autotrader.com (private, owned by Cox)
  - Kelley Blue Book (private, owned by Cox)
  - TrueCar ($1bn mkt cap)
  - Edmunds (private)
- All have similar landing pages and search results
- Typical consumer will simply visit the site that shows up highest on google search results, and the battle to show up high on google will squeeze margins

What Shows Up For Sample Google Searches?

- "I want to buy a car" (in NY, December 2018)
  - On Pg 1 of google, in order from top: Truecar.com (paid), Dodge.com (paid), cars.com, autotrader.com, moneycrashers.com, edmunds.com, carmax.com, cars.usnews.com, usatoday.com article, thebalance.com, usa.com/buy-a-car, dmv.org
  - No CarGurus on pg 1 of google
- "Car comparison online" (in NY, December 2018)
  - On Pg 1 of google, in order from top: Truecar.com (paid), kbb.com (paid), cars.com, edmunds.com, truecar.com, caranddriver.com, kbb.com, jdpower.com, nerdwallet.com, cars.usnews.com, car.com
  - No CarGurus on pg 1 of google
- "Lowest priced jeep" (in NY, December 2018)
  - On Pg 1 of google, in order from top: jeepcurrentoffers.com (paid), truecar.com, cars.com, cars.usnews.com, car-buying-strategies.com, jeep.com, automobilemag.com, **cargurus.com**

Parallels to Quinstreet

- Historically, CARG has been able to grow rapidly by excelling in SEO in addition to offering its product to dealers at a much lower price than competitors
  - Founder Steinert leveraged experience from Tripadvisors
- But changing google algorithms
- Quinstreet: lead gen a major part of its business
- Purchased Insurance.com, Insure.com for $50m in 2009-2011 period
- But over time, in order to maintain the leadership status on google, QuinStreet had to continue forking over big bucks to google to stay on top of search queries, even as more and more and more players kept entering the space and bidding on the same search queries
- Today, insurance.com and insure.com typically don't show up on page 1 of google searches for "car insurance" or "where can I buy car insurance"

CARG Financials

Year	2016	2017	2018 LTM
Revenue	$198.1	$316.9	$418.7
YoY Growth	*101.0%*	*59.9%*	*45.9%*
EBITDA	10.6	19.1	13.9
CFO Less Capex	14.2	20.5	38.9
Sales and Marketing	161.1	246.1	318.9
% of revenue	*81.3%*	*77.7%*	*76.2%*

CARG Financials

Year	CARG	CARS	TRUE
Market Cap	$4.3b	$1.8b	$1.1b
Enterprise Value	$4.1b	$2.5b	$900m
LTM Revenue	$419m	$654m	$346m
LTM EBITDA	$14m	$177m	-$20m
LTM CFO - Capex	$39m	$144m	$3m
EV/Revenue	10x	4x	3x
EV/EBITDA	N.M.	14x	N.M.
LTM Rev Growth	46%	4%	10%
2019 Rev Growth Estimate	25%	6%	14%
2020 Rev Growth Estimate	22%	5%	12%

- Major private competitor Cox owns Autotrader, Kelley Blue Book
  - Laid off 400 employees mid '17, suggesting disappointing performance. One sellside estimated Autotrader revenues were flat to down in '17.

Overall Industry Slowdown

- Total dealer subscription revenues for the automotive marketplaces grew at a healthy 12% CAGR during 2011-2016, but growth has slowed to 5% in 2017. 2018 should see continued deceleration, with industry growth slowing to 3%
- Reasons include:
  - Digital's catch-up period relative to traditional media is over
  - Marketplace usage has plateaued
  - Customers becoming more expensive to acquire
    - Avg cost per click in auto vertical up 72% in last two yrs
  - Dealers prioritizing 1st party not 3rd party spend in dig advertising
  - Most dealers who aren't customers are very small
  - Car dealerships expecting overall revenue decline in 2H18

Conclusion

- CarGurus' commoditized offering, in an industry landscape that has multiple peers offering a similar product, doesn't deserve a 10x revenue multiple
- While historical growth has been substantial, it's been driven by factors (SEO, paid search) that are not sustainable over the long term if the company seeks to turn a material profit
- CARG trades at significant premium to peers CARS and TRUE, which, along with Autotrader / Kelley Blue Book, are struggling to maintain sales growth and are seeing declining profitability, triggered by the maturing competitive landscape as well as the sluggish dealer end market
- We predict a slowdown in CARG's growth rate and continued low margins, which will lead to multiple contraction