

QuinStreet, Inc. (QNST)

Leading Nowhere

We are short shares of QuinStreet, a web-1.0 adtech firm that acts as a middleman between online advertisers and niche web sites. These niche sites attract visitors (leads) who are shopping for, say, a new credit card; QuinStreet acquires those visitors and delivers their data or eyeballs to advertisers, like credit-card companies, earning a fee along the way.

For much of QuinStreet's eight-year history as a public company, its stock traded at less than half of its IPO price, as investors realized that QuinStreet's outdated business model is unlikely to be a long-term survivor in the rapidly changing world of online advertising. But in the past eight months, QuinStreet's share price has nearly quadrupled, fueled by a frothy market and a reversal of its longstanding trend of declining sales. QuinStreet now trades at a sky-high multiple of 60x operating profit.

In reality, few investors understand how QuinStreet actually does business, given the company's bare-bones disclosures and scant research coverage. We believe the uptick in revenue is a sham: a mix of malware redirects, bogus leads from web surfers trying to score "swagbucks," and a one-time lucky deal with Progressive that has already plateaued. QuinStreet isn't a legitimate player in lead generation anymore; its proprietary web sites are nowhere to be found in top search results, and its click-monetization technology is routinely passed over in favor of its competitors'.

QuinStreet claims that it sources valuable "high-intent" leads for its advertiser clients. Then why is the largest source of traffic to QuinStreet's main online hub over the past few months a fake site called Insurancebranch.com, which attracted users by simply paying them to click on its advertising links? Why is so much of QuinStreet's other traffic coming from domain names associated with adware, paid surveys, and a mysterious individual in Hunan Province? How much of QuinStreet's traffic – the very essence of its business – is genuine?

Drawing on extensive discussions with multiple former QuinStreet employees and other industry participants, we find that QuinStreet has little to differentiate it in a highly competitive market. Its technology is clunky, its sites commodity, its affiliate relationships fleeting. Unsavory business practices have subjected it to robocalling lawsuits and its inability to evolve at the pace of competitors has ruined internal morale. Unsurprisingly, key insiders, including QuinStreet's CEO, CFO, and one of its earliest and largest institutional investors, have just recently begun to sell their shares. QuinStreet is not a road to riches; it's a dead end.

Disclaimer: As of the publication date of this report, Kerrisdale Capital Management, LLC and its affiliates (collectively, "Kerrisdale"), have short positions in and own option interests on the stock of QuinStreet, Inc. (the "Company"). Kerrisdale stands to realize gains in the event that the price of the stock decreases. Following publication, Kerrisdale may transact in the securities of the Company. All expressions of opinion are subject to change without notice, and Kerrisdale does not undertake to update this report or any information herein. Please read our full legal disclaimer at the end of this report.



Table of Contents

I.	INVESTMENT HIGHLIGHTS	3
II.	COMPANY OVERVIEW	5
III.	QUINSTREET'S RECENT REVENUE GROWTH COMES ENTIRELY FROM A SINGLE CUSTOMER	7
IV.	QUINSTREET-AFFILIATED SITES BENEFIT FROM HIGHLY SUSPICIOUS WEB TRAFFIC	12
v.	QUINSTREET'S BUSINESS MODEL IS FUNDAMENTALLY FLAWED	21
	Low Barriers to Entry Foster Intense Competition	
VI.	QUINSTREET IS A LOW-QUALITY ORGANIZATION	27
	Consumer Mistreatment	31
VII.	VALUATION	33
	Comparable-Company Multiples Suggest ~50% Downside	
VIII	. CONCLUSION	37
FUL	L LEGAL DISCLAIMER	38



I. Investment Highlights

QuinStreet's recent revenue growth comes entirely from a single customer. Almost a quarter of QuinStreet's total revenue is now attributable to the auto insurer Progressive – a fact that management and sell-side analysts have scarcely mentioned. In 2017, revenue from Progressive sharply increased, tied, we believe, to a new relationship in which QuinStreet supplies the competitors' quotes that Progressive shows on its site to demonstrate its fairness and transparency. For the past three quarters, however, this Progressive revenue has flattened out, suggesting slower growth in the future. Strikingly, excluding Progressive, QuinStreet revenue has stagnated (and in fact declined from 2016 to 2017), casting doubt on the durability of its turnaround.

QuinStreet-affiliated sites benefit from highly suspicious web traffic. We used SimilarWeb, a standard tool for analyzing web traffic, to examine QuinStreet's hub domain, Nextinsure.com, and discovered that the largest source of its recent traffic was a strange, now largely defunct, site called Insurance Branch. Piecing together several lines of evidence, we conclude that Insurance Branch is a QuinStreet affiliate that recruited users to click on its advertiser-sponsored links in exchange for an online currency called swagbucks. In this fashion, Insurance Branch effectively paid pennies for clicks worth dollars or tens of dollars to advertisers, using QuinStreet as a middleman and splitting the proceeds with it. But these swagbucks aficionados didn't actually want insurance. They only clicked because they were paid to do so – exactly the kind of "leads" that no advertisers would knowingly buy. This phony, artificial click traffic casts serious doubt on the quality of QuinStreet's product and thus its value to advertisers.

Nor was Insurance Branch the only anomaly we came across. QuinStreet affiliate sites also draw significant traffic from pop-up-proliferating adware; from a mysterious Chinese-owned domain called kptrk.us; from paid surveys; and from bogus message-board posts. It's impossible for us to determine how widespread these practices are or how much QuinStreet is aware of them; one benefit of its reliance on third-party affiliates is plausible deniability in these situations. However, based on the available evidence, we believe suspicious and phony traffic play a significant role in its business.

QuinStreet's business model is fundamentally flawed. QuinStreet is a middleman, intermediating between publishers and advertisers. But there are many other such intermediaries in all of QuinStreet's verticals, and QuinStreet has few ways to outcompete them in the long run other than forking over more of its revenue to secure the loyalty of the few high-quality publishers available. As the advertising market becomes more sophisticated and efficient, QuinStreet will have fewer opportunities to profit, even as the low barriers to entry in lead aggregation subject it to constant competitive attack, often by new firms headed by former employees. QuinStreet is especially vulnerable because its verticals are among the most expensive when it comes to buying search-engine keywords, yet QuinStreet has never shown the willingness or ability to create genuinely compelling content that can attract visitors in its own right.



There Are Few Signs of a Sustainable Turnaround. QuinStreet features telltale marks of a business that's gradually becoming obsolete. Despite its exclusive digital focus, QuinStreet relies on weak and outdated technology. Reviews from Glassdoor abound complaining about the legacy nature of the company's systems and programs. The inefficiencies of QuinStreet's technology is reflected in its lead gen sites; even after entering pages of personal information merely to be "matched" with a handful of supposedly relevant links, the user often has to enter the same information again after following those links to their destinations, and is sometimes forwarded to yet more lead gen sites. Then there is the matter of a litany of unwanted calls bombarding unsuspecting visitors – indeed, multiple consumers have recently sued QuinStreet, alleging that they in fact never did agree to be contacted via autodialer, making QuinStreet's calls violations of the Telephone Consumer Protection Act (TCPA).

Comparable-company multiples suggest ~50% downside. Pulling together the available information on the valuations of three competitors and peers – MediaAlpha, Bankrate's insurance unit, and Katch – we find that QuinStreet trades at a large premium to firms that not only have grown faster than it but even earn more absolute dollars of operating profit with fewer employees. Even giving QuinStreet the benefit of the doubt for its suspicious traffic, bad management, and weak long-term competitive advantage, its stock price should only be ~\$5-7 – roughly 50% below the current levels. Interestingly, key QuinStreet insiders – its CEO, its CFO, and one of its largest early investors, Split Rock Partners – all launched stock-selling plans in the past few months, right as QuinStreet's long languishing share price finally rebounded to \$8, \$10, and beyond – and after spending years patiently holding their shares at lower prices. We believe the message is clear: QuinStreet's stock price has far outrun its weak fundamentals.



II. Company Overview

QuinStreet: Capitalization and Financial Results									
Capitalization			Financial results (\$ mm)						
Share price (\$)	\$	12.32			2015		2016		2017
Fully diluted shares (mm):			Revenue	\$	284	\$	299	\$	336
Shares outstanding		46.2	EBITA		(8)		(9)		10
Dilutive impact of options/RSUs		3.6	EBITA margin		-3%		-3%		3%
Total		49.9	Diluted EPS	\$	(0.47)	\$	(0.36)	\$	0.06
Fully diluted market cap (\$mm)	\$	614	Rev. by vertical:						
Less: cash		42	Financial Svces	\$	124	\$	175	\$	221
Enterprise value	\$	572	Education		106		76		72
EV/EBITA (trailing)		60.2x	Other		54		48		43
P/E (trailing)	2	221.9x							

Source: company filings, Kerrisdale analysis

Note: QuinStreet reports on a fiscal year that ends on June 30, but the financial results above represent calendar-year values.

Founded in 1999, QuinStreet began life as a VC-backed effort to facilitate the online sales of "specialty goods." For instance, QuinStreet created web sites to recruit affiliates for Rainbow Light Nutritional Systems ("a well-known premium manufacturer of multivitamins and food supplements"), Ariat equestrian footwear, and even Hooked on Phonics, promising that earning commissions on sales of these products offered "UNLIMITED income potential." An early client was the for-profit online school University of Phoenix; QuinStreet created web pages to attract prospective students, collect their contact information and other data, and transmit it (for a fee) to the university. Soon it became clear that selling leads to for-profit colleges was more lucrative than selling leads to Hooked on Phonics, and for years QuinStreet focused on the education market, with little success in other areas.¹

Beginning in its fiscal year 2007, however, QuinStreet – perhaps correctly suspecting that for-profit education was a shaky foundation for long-term prosperity – embarked upon an acquisition binge, spending almost \$400 million over six years on more than 100 "online publishing businesses" designed to drum up customers for third-party advertisers in a variety of industries. The primary target was the insurance vertical, where QuinStreet spent \$130 million on SureHits (an auto-insurance advertising platform analogous to Google AdSense), Insure.com, Insurance.com, and Carlnsurance.com. But QuinStreet also expanded via acquisition into generating leads for home services (ReliableRemodeler), business-to-business sales (VendorSeek, Internet.com), mortgage lending (HSH.com), credit cards (CardRatings.com), and more.

¹ See e.g. the internet-advertising blogger <u>Jay Weintraub in 2005</u>: he described QuinStreet as the "edu champ" but noted that "not one lead generation company plays a dominant role in more than one vertical....QuinStreet has rocked portions of the education segment but has not done well in mortgage."



Notwithstanding the costliness of these acquisitions, QuinStreet today derives only a small fraction of its revenue from web sites it actually owns.² Instead, the bulk of the business comes from hundreds of third-party web-site operators – sometimes called "publishers" – who attract visitors by a variety of means and sell their clicks and contact information to QuinStreet, who resells them to insurance companies, banks, contractors, and other clients (sometimes including other lead generators and aggregators, who re-re-sell them). In the words of one former QuinStreet employee we spoke to, "QuinStreet makes it palatable for big brands to work with these kind of small, sketchy lead-gen partners." While QuinStreet does sometimes partner with larger "publishers" – for instance, providing sponsored <u>auto-insurance content</u> to MSN Money³ – many of its affiliates are sites that few people have heard of, like <u>bankdealguy.com</u>, <u>massagetherapyschoolsinformation.com</u>, <u>findyour-replacementwindows.com</u>, and <u>walkintubguide.org</u>.

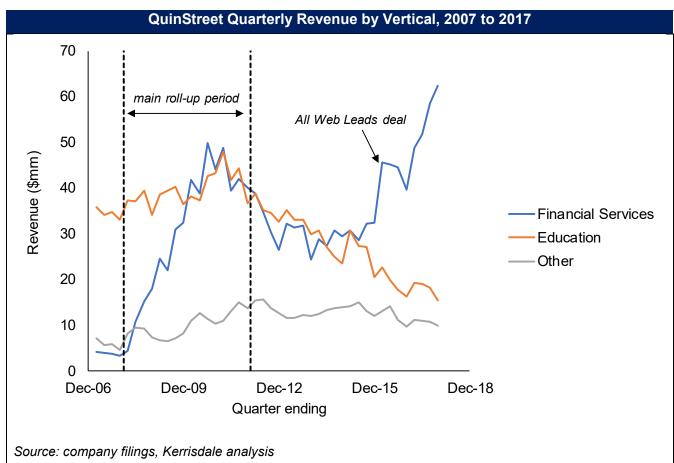
With its diversification initiative well under way, QuinStreet went public in 2010, pricing at \$15 per share – below the original expected range of \$17 to \$19. Reportedly, the disappointing showing stemmed from "fears about potential obstacles to QuinStreet's business of recruiting students for for-profit education companies," especially in light of the regulatory "overhaul" that the Department of Education was then considering. These fears were soon validated. Revenue in QuinStreet's Education vertical peaked in the first quarter of calendar-year 2011; since then, as stricter regulations set off the implosion of the for-profit-education sector – with an attendant collapse in marketing – revenue in the vertical has declined almost 70%.

QuinStreet's other, newer verticals – Financial Services (primarily auto insurance) and Other (which includes home services and B2B) – were supposed to make up for potential weakness in Education. But they encountered their own problems. Beginning in 2011, increased competition in the online auto-insurance advertising market threw Financial Services into disarray, while housing-sector malaise and increased competition in B2B pushed "Other" off course. The graph below shows quarterly revenue in each vertical. It took more than six years for Financial Services to rebound back to its late-2010 peak; "Other," meanwhile, is still in a drawdown.

² QuinStreet's FY2017 10-K (p. 5) notes that "[m]edia purchased on a revenue-share basis [i.e. from third parties] has represented the majority of our media costs and of the Internet visitors we converted into qualified leads, clicks, calls, applications, or customers for clients." On various public conference calls, QuinStreet management has said, "There's a big emphasis on partnerships...although we went through a brief period where we had a little bit more owned and operated media. Most of our media has always been with partners" (FY2017 Q3); "We don't have that much of an exposure to our owned and operated SEO anymore. As you know it's a relatively small part of our business (FY2016 Q4); organic traffic is "a little less than 10%" of overall company traffic (FY2013 Q4); and "the vast, vast majority [of the autoinsurance business] comes from third-party sites" (June 7, 2011, guidance update). One former QuinStreet employee told us that "QuinStreet is maybe generating like 10% or less" – perhaps just 3-5% – "of their own leads."

³ Amusingly, the Insure.com link in that MSN Money piece does not actually work, hampering its effectiveness as a revenue generator.





Note: "main roll-up period" runs from February 2008 (ReliableRemodeler acquisition) to February 2012 (Ziff

Davis Enterprise acquisition).

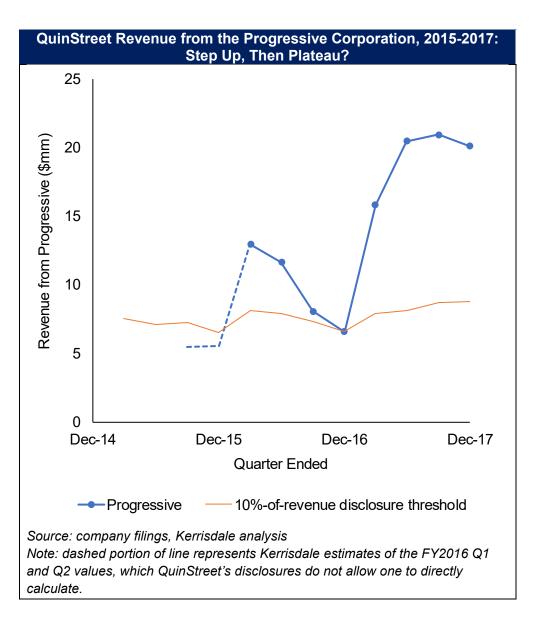
Recently, however, QuinStreet has enjoyed a bit of a comeback, driven by its Financial Services vertical. Management has claimed that its turnaround efforts are finally working, and, with the Education vertical having already shrunken so much, success in Financial Services can now drive overall revenue and profitability in the right direction. This renewed hope has led to a dramatic boom in QuinStreet's stock price. But this hope doesn't withstand closer inspection.

III. QuinStreet's Recent Revenue Growth Comes Entirely from a Single Customer

For the typical public company, if a single client contributed a quarter of its total revenue, analysts and investors would focus intently on that client, recognizing that any changes in its behavior could have outsized effects. In the case of QuinStreet, however, the sudden emergence of the Progressive Corporation as far and away the company's largest source of revenue has been greeted with almost complete silence. QuinStreet management has never mentioned Progressive by name in an earnings call or press release, nor, to our knowledge, have sell-side analysts directly discussed its importance. But by scrutinizing QuinStreet's SEC



filings and speaking with industry participants, including former QuinStreet employees, we have pieced together some of the story.



Before calendar-year 2016, Progressive, though one of the largest auto insurers in America, accounted for less than 10% of QuinStreet's total revenue. But beginning in 2016, that percentage jumped into the teens and then, in 2017, the twenties. While the initial growth may have been related to the initiation of QuinStreet's partnership with All Web Leads, which generally expanded its insurance vertical, we believe that the more recent spike stems from the use of QuinStreet's insurance.com platform as the source of the competitors' rates that Progressive shows to insurance shoppers on its web site.

For years, Progressive has offered to help consumers save money by providing not just its own quotes but also competing insurers', even when the comparison did not favor Progressive – a



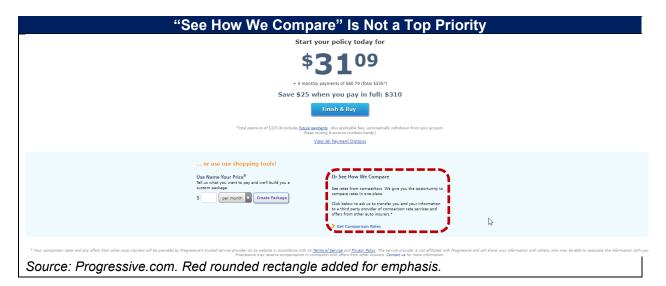
gambit designed to gain more in long-term goodwill than it loses in short-term sales. However, in recent years, Progressive has apparently reduced its emphasis on the comparison concept; for instance, of the 14 TV commercials now viewable on Progressive's site, only one makes any reference to allowing prospects to view competitors' rates, while the others focus on themes like bundling and discounts. Likewise, Progressive.com only mentions "comparison rates" in a tiny font at the very bottom of the page. Originally, Progressive estimated competitors' rates for a given prospective customer using its own internal calculations based on data filed with state regulators; as of recently, however, Progressive draws on insurance.com, one of QuinStreet's properties, as shown in the partial screenshot below:

Progressive's Rate Comparisons Come from QuinStreet's Insurance.com

To provide you with accurate quotes from several insurance companies. Insurance.com needs your permission to obtain your insurance credit score. By clicking the button below, you authorize Insurance.com to obtain your insurance credit score and share it, along with the information you provide, with insurance companies for the purpose of calculating accurate quotes. This will not affect your credit score.

Source: Progressive.com. Red rounded rectangle added for emphasis.

Of course, Progressive's main goal is to sell Progressive insurance, not to direct consumers to other carriers. To that end, after going through several pages' worth of data entry to obtain a variety of Progressive quotes, the price-comparison option only appears as an afterthought:



In what is perhaps a sign of QuinStreet's attention to detail when it comes to compliance, we found that the fine-print links to QuinStreet's "Terms of Service" and "Privacy Policy" (just barely visible above) didn't actually work when we tried them: both were identified as "Not secure" by Google Chrome and only pulled up "403 Forbidden" error pages. (One might generally doubt the validity of long, complex contracts that users are deemed to have agreed to just by virtue of clicking a link, but it's especially difficult to see how legal agreements rendered totally inaccessible by a marketing firm's sloppiness could possibly hold up in court.)

⁴ Based on our discussions with multiple industry participants.

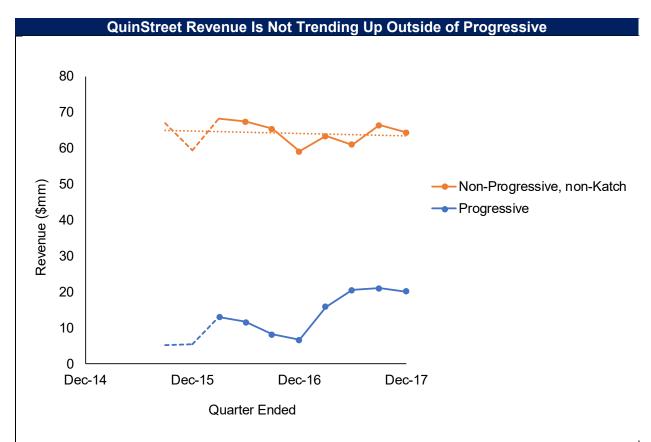


At any rate, after entering even more information, the user is presented with a QuinStreet-generated table of quotes from a handful of other carriers (none of them directly usable), along with a QuinStreet-mediated link or two to third-party web sites. Confusingly, the table of quotes and the links don't necessarily line up: in our experience, for instance, the quotes were from Esurance, Foremost, Good2Go, MetLife, and Plymouth Rock, while the links were to Liberty Mutual and State Farm – making the user experience even more befuddling.

We believe that the likes of Liberty Mutual and State Farm pay for clicks onto their sites that originate from Progressive's site and that Progressive and QuinStreet share the resulting revenue, though we are unsure of the terms of the arrangement, which QuinStreet, in typical fashion, says nothing about. Progressive may also pay QuinStreet directly for the use of its insurance.com technology. Despite the tortuous path that a user must follow to end up generating revenue for QuinStreet in this fashion – going through page after page of personal data entry to obtain a Progressive quote, then scrolling all the way down to click a link to check to see if any competitors' prices are better, then entering more personal data, then viewing those prices, then deciding it's worthwhile to click on a link to enter data yet again to get more quotes from another insurer – Progressive.com does attract a lot of traffic: according to SimilarWeb, some 17 million visitors per month. Converting even a small fraction of these visitors to outbound clicks could plausibly account for at least some of QuinStreet's increased Progressive revenue.

Whatever the details behind QuinStreet's changing relationship with Progressive, recognizing the role that Progressive has played in QuinStreet's recent revenue growth puts that growth – and QuinStreet management's comments about it – in a different light. For instance, in both the March 31 and June 30, 2017, quarters, management spoke glowingly of the "positive momentum" that was building up in the business, especially in the Financial Services segment, speaking as if this was a broad-based phenomenon; in reality, Financial Services sequential growth in those quarters came entirely from Progressive, while non-Progressive Financial Services revenue actually declined. Looking at the overall business, it's striking that, as shown below, QuinStreet revenue excluding Progressive (as well as the recent Katch acquisition, which bumped up revenue in the December 2017 quarter) has exhibited *no trend toward growth* over the past two-and-a-half years. Outside of Progressive, nothing much, on net, has happened.





Source: company filings, Kerrisdale analysis

Note: Katch revenue estimate comes from <u>January 31, 2017</u>, <u>earnings call</u> ("Revenue related to the acquired Katch business was approximately \$3 million").

Meanwhile, even the Progressive revenue has been essentially flat for the last three quarters, raising doubt about QuinStreet's overall growth potential going forward. In the words of a former QuinStreet employee knowledgeable about its insurance business, "This may be a *one-time* deepening of the relationship with QuinStreet and Progressive" – not a sustainable upward move. Among large carriers, Progressive's historical emphasis on facilitating comparison shopping was unique; while QuinStreet might deserve credit for achieving a "one-time deepening," there's no obvious "next Progressive" to pursue.

In addition, the main product QuinStreet is providing – in essence, a few advertiser-funded hyperlinks – is far from special. In fact, QuinStreet's competitor MediaAlpha has pitched what it calls "shopper monetization programs" for years (emphasis added):

Shopper Monetization Programs: MediaAlpha strengthened its market leadership position in the insurance segment and is now working directly with 18 insurance carriers who utilize the MediaAlpha exchange platform to offer comparison advertising and monetize their non-served and/or non-converting shoppers.

As explained in a May 2016 post on InsuranceThoughtLeadership.com by MediaAlpha's former vice president of marketing, the idea is the same as what QuinStreet does for Progressive: a



way for an insurance carrier to make money off of consumers who express interest in an insurance policy but ultimately don't buy, either because the carrier rejects them or because they reject the carrier. Regardless, these consumers are valuable to advertisers in the insurance space, including other carriers, and MediaAlpha's ad-exchange technology enables them to bid in real time for the target audiences they want. A MediaAlpha <u>case study</u> reveals that Esurance, an Allstate subsidiary, worked closely with MediaAlpha to refine this technology, and apparently the partnership has gone well: Esurance calls MediaAlpha "a best-in-class technology partner" and praises its "easy-to-use" and "sophisticated" tools.

As QuinStreet warns in the "Concentrations of Credit Risk" section of its 10-K, most of its contracts with clients "are cancelable with little or no prior notice. In addition, these contracts do not contain penalty provisions for cancellation before the end of the contract term." QuinStreet discloses its outsized exposure to Progressive in the very next sentence. With a competitor like MediaAlpha waiting in the wings, QuinStreet will never be able to rest easy; Progressive will always have the option of switching partners or demanding better, knowing that, with almost a quarter of its revenue hanging in the balance, QuinStreet is in no position to argue. This is not the sort of business that deserves a high multiple.

IV. QuinStreet-Affiliated Sites Benefit from Highly Suspicious Web Traffic

With the Financial Services vertical so central to QuinStreet's current business mix, it's strange that the company says so little about the underlying internet properties in that area. What sites matter most? What trends are affecting their traffic? Unfortunately, there's no simple way to locate all the sites in QuinStreet's network, since so many belong to third parties and don't broadcast their QuinStreet connection. But by looking "under the hood" of many sites, we discovered a key QuinStreet hub: Nextinsure.com.

Unlike, say, insurance.com – a consumer-facing site – Nextinsure.com largely operates behind the scenes. Clicks originating on QuinStreet affiliates' sites or QuinStreet's own are processed using technology hosted on Nextinsure.com; the traffic then flows outward to advertiser sites, thereby generating revenue for QuinStreet, which in turn pays a portion of that revenue to its affiliates. In an effort to better understand the identity and quality of QuinStreet's affiliates, we examined data from SimilarWeb, a standard resource for analyzing web traffic. According to SimilarWeb, the vast majority of Nextinsure's traffic comes from referrals, i.e. inbound links from other domains. But the list of the top 5 referring sites over the last three months surprised us:



Nextinsure.com: Primary Traffic Sources						
Top Referring Websites ①						
Jan 2018 - Mar 2018, 🔾 Worldwide 💂 Desktop Only						
insurancebranch.com	9.91%					
autoinsurance.insure.com	7.77%					
dmv.org	6.69%					
carinsurance.com	5.01%					
O p.everquote.com	4.42%					
Source: SimilarWeb (screenshot taken April 6, 2018). Red rounded rectangle added for emphasis.						

Most of the sites are relatively easy to understand:

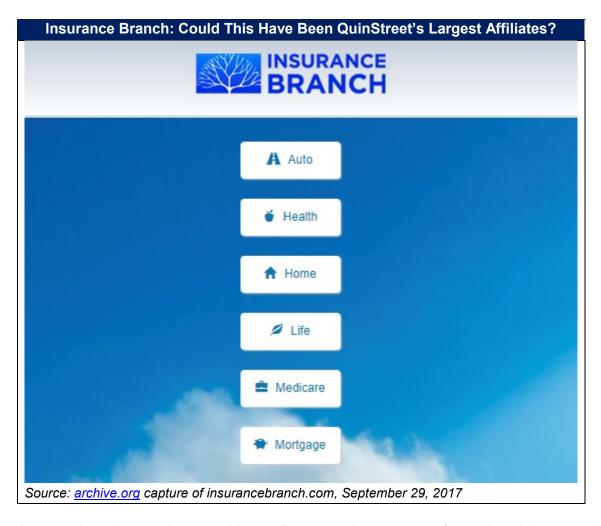
- autoinsurance.insure.com and carinsurance.com, the second and fourth largest traffic sources, are QuinStreet-owned sites; in keeping with QuinStreet's past commentary about the relative unimportance of its proprietary sites, these "marquee" names account for only ~13% of Nextinsure traffic.
- <u>DMV.org</u>, the third largest referrer into Nextinsure, is a high-traffic auto site that
 prominently announces on every page that it is "A PRIVATELY OWNED WEBSITE
 THAT IS NOT OWNED OR OPERATED BY ANY STATE GOVERNMENT AGENCY."
- EverQuote, Nextinsure's fifth-largest source of traffic, is itself a large insurance-lead aggregator and major QuinStreet competitor. According to SimilarWeb, EverQuote.com is the single most-trafficked insurance site not affiliated with a carrier (standing at #5 in the overall insurance rankings, behind USAA, Progressive, Geico, and State Farm's sites). From a financial perspective, EverQuote likely earns more insurance-related revenue than QuinStreet does.⁵ The fact that EverQuote nonetheless sends traffic to Nextinsure representing, we suspect, unattractive prospects that EverQuote can't readily match with its large carrier clients and instead tries to monetize via QuinStreet illustrates what a confusing labyrinth the lead-aggregation market is, with sensitive consumer data passing through many hands along the way.

_

⁵ According to Inc., EverQuote revenue was \$122.8 million in 2016, up 27% from 2015 and a compounded 39% per year over the previous three years. Assuming 25% growth, EverQuote revenue would be ~\$150 million in 2017. By contrast, QuinStreet's total Financial Services revenue in calendar-year 2017 was \$221 million, but only some of this related to insurance. On QuinStreet's FY2017 Q4 earnings call, management said that insurance is "60% something of total Financial Services," implying \$133-144 million (60-65%) in insurance revenue. Thus we believe EverQuote generates at least somewhat more insurance revenue than QuinStreet does.

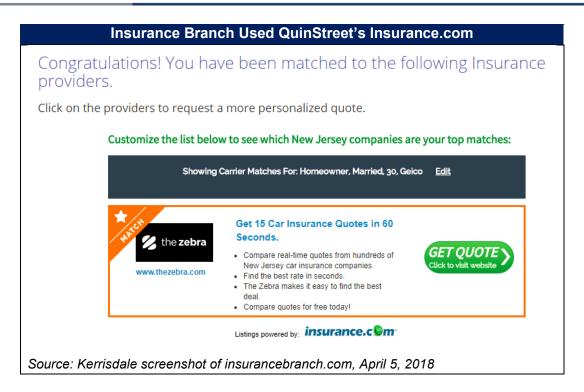


But what about Nextinsure's *number-one* source of traffic – insurancebranch.com? We'd never heard of it before, yet in recent months it appears to have supplied 10% of the inbound traffic to QuinStreet's main network hub. Visiting the <u>site</u> today shows almost nothing – just a background image of the sky, some legal boilerplate linking the site to a marketing firm called Global Wide Media, and the address of an unassuming <u>building</u> in a Los Angeles suburb also associated with two other low-quality sites, <u>smarterlifechoices.com</u> and <u>stayflytravel.com</u>. However, <u>archive.org</u> shows that, as recently as September 29th, Insurance Branch presented itself as a wide-ranging financial-services portal, with links for auto, health, home, life, Medicare, and mortgage but no real content.



As recently as last week, we could actually access the auto page (even though it was no longer linked from the front page) and quickly found that it provided "listings powered by: insurance.com," a QuinStreet site:





(interestingly, we see above that QuinStreet's best "match" for this notional insurance shopper was The Zebra – not an "insurance provider" itself but yet another lead aggregator that again promises to allow the user to compare real-time quotes.)

SimilarWeb data confirms that, from January to March, 80% of Insurance Branch's outbound traffic flowed to nextinsure.com, while 17% flowed to insurance.mediaalpha.com, a hub site for QuinStreet's competitor MediaAlpha. Thus it appears that whoever is responsible for Insurance Branch primarily used QuinStreet (and to a lesser degree MediaAlpha) to monetize its traffic, apparently via users clicking on links like the Zebra one above, racking up costs for the advertiser and revenue for QuinStreet, which it presumably shared with Insurance Branch.

But how did this obscure, strangely named, skeletal site bring so much traffic in to QuinStreet? Looking again at SimilarWeb data, we find that a baffling 64% of Insurance Branch's traffic is "direct" – i.e. users apparently just typing "insurancebranch.com" into their browsers of their own volition. But of the 28% of traffic that comes from referrals, 67% comes from swagbucks.com – a site that allows consumers to "get free gift cards & cash for the everyday things you do online," including "watch[ing] entertaining videos...answer[ing] surveys and find[ing] great deals." Completing these tasks earns users "swagbucks" (SB), usually worth a penny each. A lively online community of Swagbucks devotees keeps close tabs on the site and related platforms like Revenue Universe and AdGate Media, and many users have explicitly talked about how much they like offers from Insurance Branch (emphasis added throughout):

⁶ The second-largest source of traffic for Insurance Branch is SponsorPay, now called Fyber, which allows app developers to make money via "offer walls" similar to what the Swagbucks users quoted below describe using.



Adgate Media: Mortgage Insurance Branch: An easy 16 SBs I have found under AdGate. All you have to do is to submit your zip code and click on "Get Quote." No need to sign up or anything.

—post on swagbuckshelp.blogspot.mk, August 31, 2016

Insurance Branch Offers: Look on the AdscendMedia wall or Adgate wall for these offers. All you do is enter your zipcode and click "Get Quote" and you get some SB and the team gets points too!

—post on a blog entitled How to Earn a Little Extra, March 17, 2017

Some of the Insurance branch offers allowed me to do them twice. So far 20 [swagbucks] credited.

—user "resourcepit" on the <u>r/SwaqBucks reddit</u>, <u>December 6, 2017</u>

MOST paid offers are pending for a certain amount of time. So if you NEED the Swagbucks right away they might not be available for up to 60 days. ... Sometimes you can luck out and get offers like Insurance Branch (just put in your zip code for SBs) or Daily Breaks (little games and ads for SBs)

—user "savestheday" on the parenting message board GBCN, January 8, 2018

Thus, synthesizing the available information, we believe the following has taken place:

- Dating back to at least 2016, whoever created Insurance Branch (perhaps an affiliate of Global Wide Media) effectively paid Swagbucks enthusiasts tens of cents each to enter their ZIP codes and pretend they wanted insurance quotes. Some even managed to get credit for clicking "get quote" multiple times.
- Insurance Branch, as a QuinStreet affiliate, used QuinStreet technology to generate the advertiser-sponsored links for the Swagbucks fans to click on.
- Each click cost the underlying advertisers money (on the order of dollars or tens of dollars per click) and generated revenue for QuinStreet, the majority of which it likely remitted back to Insurance Branch.
- This arrangement grew so large that it came to be the single biggest source of traffic for the Nextinsure.com hub, accounting for 10% of the total.
- Very recently, parts of Insurance Branch have been deactivated. Perhaps someone finally noticed what was going on.

Of course, what insurers and other advertisers want is consumers actually shopping for insurance – not opportunists looking to score a few swagbucks. For some period, however – as long as advertisers can't discern the phony traffic from the real traffic – QuinStreet would benefit, even if it was initially unaware of the Insurance Branch scheme.

Intriguingly, another advertising-related traffic anomaly, reported on by Buzzfeed in late 2017 ("Myspace Looked Like It Was Back. Actually, It Was A Pawn In An Ad Fraud Scheme"), also



involved Swagbucks: a "trending videos" page on Myspace spiked in apparent popularity, partially as a result of Swagbucks users being financially rewarded for watching videos but, even more egregiously, because a complex automated system generated large volumes of totally human-free traffic as well. (Fraudulent automated traffic would help explain why so much of Insurance Branch's incoming traffic appears to be direct, since it's otherwise difficult to imagine why anyone would actually type "insurancebranch.com" into a browser, but we have no direct evidence of this.)

In addition to Insurance Branch, we uncovered other suspicious sources of QuinStreet traffic:

• <u>autoinsurance.insure.com</u>: This site is the second-largest source of recent Nextinsure.com traffic and, as mentioned above, a QuinStreet-owned site. SimilarWeb data indicates that almost all referral traffic into this domain (99%) come from three places: rnddmn.com, rcdnew.com, and newdmn.com. None of these sites has any visible content. A <u>March Reddit post</u> suggests that these domains seem to be generating anomalous traffic elsewhere, and numerous sites focused on malware and adware describe how these domain names are used by malicious programs that produce unwanted pop-up ads and browser redirection:⁷

The Newdmn.com is an annoying page which will directly lead you to a variety of advertising pages. ... Aside from causing redirects, the 'ad supported' software also can show lots of popup advertisements, slow down the machine and continually gather privacy info about you. ... It's made with the sole purpose to show dozens of advertisements ... For each click on a link, the creators of the adware receive income.

- <u>quidetolenders.com</u>: owned by QuinStreet, this site is one of the main components of the company's small mortgage vertical. Its fourth-largest source of referral links is kptrk.us. Entering <u>that address</u> yields a "404 Not Found" error message. The domain is <u>registered</u> to someone in the Chinese city of Zhuzhou named Bai Guicai, who has also registered the defunct site <u>sohorich.com</u>.
- <u>low-income-car-insurance.com</u>: owned by All Web Leads but, pursuant to that company's partnership with QuinStreet, partially monetized via the Nextinsure.com hub. Despite the site's obvious US focus (e.g. other countries don't have ZIP codes), SimilarWeb indicates that 36% of its recent traffic has come from Brazil.
- <u>USInsuranceOnline.com</u>: a relatively high-traffic All Web Leads site, again monetized via QuinStreet and Nextinsure. The fourth and fifth largest sources of referrals to the site are amarktflow.com and poll.surveyvoicesresearch.com. The former site hosts no content but is associated with misleading mobile pop-ups, as described on <u>reportscam.com</u>:

⁷ See e.g. myantispyware.com on "<u>How to remove Newdmn.com redirect</u>" the Remove Malware <u>blog post</u> on newdmn.com, system-tips.net on "<u>Rnddmn.com/scz redirect domain – how to remove from browser</u>," and 2-security.com on "<u>Rnddmn.com/scz pop-up infection</u>."



I had a message pop up on my phone that I could win \$1000 gift card from Walmart - at first I thought it was tied to the app I was on and it was ligit. I answered three questions - then typed in email. Then next screen wanted my home address and phone number. that's when I got suspicious and searched on line - Did not type any more info - the only info was my email address so I will probably be bombarded with emails now. Glad I looked it up and found out it was a scam.

—user "classy," January 29, 2018

Offered \$1000 Amazon gift card.

Had to do survey that requires you to pick a deal before you can get the gift card. Asks for personal info. Never actually get gift card. Looks very legit but it's not. Now I can't get them cleared off my browser! Then says I need LifeLock to protect me! Screw you all!

—user "LauraLolyAllen," February 1, 2018

As for surveyvoicesresearch.com, the site bills itself as "the best source for top paid surveys." A recent <u>comment on ScamAvenger.com</u> by site proprietor Gary Horton highlights how Survey Voices can interact with insurance lead generation:

Surveys was one of the first things I tried when I wanted to make money online. That was several years ago and I remember I didn't make any money. All I managed to do was waste a lot of time and get a lot of spam emails and spam phone calls. I remember telling an insurance agent who called me because of a survey I filled out that I didn't want any insurance, I was just trying to make some money. They were so mad!

We also came across a separate strange source of US Insurance Online traffic: fake Reddit posts. In September 2017, Reddit user "OlderandTaller" asked, "What's with these weird subreddits?":

So doing some research on car insurance, I found some subreddits that have names completely unrelated to insurance, yet have users spamming them with insurance related posts/comments.

Some of these include: /r/makesomenewfriends /r/bigballs /r/ballsofsteel /r/bravelydefaultfriends /r/fuckfriends Among others

These subreddits are filled with questions about insurance, and all the comments are not answers, but more questions about insurance. Clicking on any of the users shows they're like a sort of bot, just posting random different insurance questions across all these subreddits.

Another user, "itsnotlupus," replied:



So, right, it's spam, and if you found those pages by googling for insurance, it's working. The only problem with you is that you thought that looked weird. Their target audience would open the reddit thread, and click on the first link in the comments.

It looks like a one man show from someone in Mexico and appears to be directed toward generating leads for https://affiliates.usinsuranceonline.com/ with the affiliate id 14899 and for Quinstreet's nextinsure.com with a number of source ids that kinda obfuscate any underlying affiliate id.

... The comments look nonsensical to humans, but they look to search engines like an active thread worthy of being indexed. Every thread appears to have at least one comment linking to the site they're trying to promote.

So the idea is to:

- 1. fool search engines into thinking this is a legitimate reddit thread and get it indexed with all the keywords it contains (which happen to all be insurance-related)
- 2. get users searching for those keywords to find at least one of those threads, and to click on it.
- 3. get users on those threads to click on the first link they see on the page, which happens to be in the first comment of each of those threads.
- 4. hope that users keep going and start entering their info to get insurance quotes.

It's a funnel, and they lose folks at each level, but the ones that get to a completed quote earn the spammer a few dozen dollars each right there.

Thus, across QuinStreet affiliates like Insurance Branch and US InsuranceOnline as well as QuinStreet-owned sites like Guide to Lenders and Insure.com, we find evidence of phony, low-quality, and suspicious traffic. Unfortunately, it's impossible to estimate, using the sometimes noisy third-party data sources available to us, how much revenue or profit QuinStreet derives from such suspicious traffic, but the world of online lead-generation is so murky that we believe we've only found a fraction of the anomalies. Given the arm's-length relationship between QuinStreet and its affiliates, it's certainly possible for QuinStreet to plead ignorance about unsavory practices that end up contributing to its revenue, but that itself highlights one of the long-term defects in its business model: it aims to sell traffic to advertisers without fully understanding or controlling where it came from or how it was generated. How much can advertisers trust QuinStreet's quality control when real customers are mixed in with Swagbucks seekers and people falling prey to malware pop-up ads?

Back in 2011, QuinStreet complained that its *competitors* were tainting the industry's image by acquiring and re-selling "incentivized clicks":



The overall quality is down pretty dramatically because most of the new big volume is coming from sources that are very low quality in terms of their conversion into a customer. And a lot of them are coming out of incentivization, particularly in social gaming incentivization. So those clicks are converting into applications because they're incentivized to do so, but they're not converting into customers because that person never intended to buy an insurance policy. They just wanted to get a new tractor or new power in their particular game.⁸

This flood of bad clicks was so massive that it crushed overall click pricing and forced QuinStreet to slash earnings guidance, kicking off a multi-year contraction in its insurance business. While QuinStreet initially insisted that it was being unfairly punished for its competitors' bad practices, later comments implied something different:

The second biggest [problem in the Financial Services vertical] has really been clients largely somewhat ironically due to our pushing and probing being much more sensitive to ROI in the back end, and adjusting their budgets to be more conservative with respect to that ROI and to be more aggressive and precise with respect to that ROI. ... And so – but that is something that we are – somewhat created by the fact that we went through the issues that happened in the industry with incentivized clicks. And our response to that put us a little bit in bad position.⁹

Stated more directly, QuinStreet tried to convince its advertiser clients not to buy its competitors' bad clicks, but this effort only pushed those clients to scrutinize the clicks *QuinStreet* was supplying – and they didn't like what they saw. Eventually, QuinStreet implicitly admitted that it too was part of the problem, speaking of declining traffic caused by "our own efforts to remove traffic that either was associated with the incentivized click problems that we saw last year or that just represented lower-quality traffic even without the incentivization." But as the years have passed and QuinStreet's insurance business has stabilized, concerns about quality have receded. Our research, however, suggests that similar underlying problems remain.

It's no wonder, then, that a recurrent theme in our conversations with former QuinStreet employees was distaste for the way the company does business. One said that QuinStreet "does a lot of stuff that I think is kind of borderline unethical for clients," including knowingly selling them bad leads or turning a blind eye to questionable affiliates, and described the company as operating "in the gray area of the internet." Another narrated the evolution of his perception of the company as follows:

At one point, before I went there, the only way I knew QuinStreet is that they said, "Oh, they're really high-quality leads. They don't generate a lot of volume, but what they do is

⁸ Source: Capital IQ transcript of QuinStreet June 7, 2011, call.

⁹ Source: Capital IQ transcript of QuinStreet February 1, 2012, call.

¹⁰ Source: Capital IQ transcript of QuinStreet April 30, 2012, call.



good quality." And that was my opinion before going there. But then when going there, just like every other company, you see that they're not too different from everybody else. Everyone's drinking from the same river, so, you know, we're all getting the same — we're all working off of the same Internet, with the same customers, responding to the same SEO, SEM, and the same click traffic. So it's really not too different from anybody else out there, to kind of tell you the truth. ...

A third former employee said that he left the company because he "wanted to get out of lead generation. It's just not the cleanest style of online marketing. You end up dealing with a lot of shady people. ... It's just kind of a shady industry." With this "shadiness" borne out in our analysis of the public traffic data, we struggle to reconcile QuinStreet's current valuation with its dubious long-term franchise value.

V. QuinStreet's Business Model Is Fundamentally Flawed

If you're really just showing a list of auto-insurance providers, how can you build a differentiated competitive advantage there?

—former QuinStreet employee

Even if QuinStreet's financial results were not inflated by a one-time step-up in revenue from Progressive and an unknown quantity of phony traffic, we believe any traction it might gain in the short term will ultimately prove fleeting. Fundamentally, QuinStreet's business model is unsustainable.

What does the company really do? In a word, arbitrage. As part of a legal dispute between QuinStreet's competitor MediaAlpha and its erstwhile competitor Katch (now dismantled into separate verticals owned by, among others, MediaAlpha and QuinStreet), the former chief marketing officer of Katch (himself a former senior director of vertical marketing for QuinStreet) offered up a concise summary of how such firms actually function:

The simple fact is that both companies (MediaAlpha and Katch) make money by paying publishers less per click than the advertiser is ultimately paying for such clicks. MediaAlpha can refuse all it wants to call this differential a "margin" or "spread", but that is exactly what it is.¹¹

The same characterization applies to QuinStreet. This attempted arbitrage can work when advertising markets are inefficient, but as time goes on and all the players become more sophisticated, arbitrage opportunities tend to decay and middlemen's margins tend to contract – just as they do in capital markets.

¹¹ *Katch, LLC*, v. *Jeff Sweetser*, case no. 15-CV-03760, document 30 (Second Supplemental Declaration of Patrick Cross, filed 10/22/15), p. 2.



In auto insurance, for instance, creating novel content that potential customers are genuinely interested in is inherently difficult. Instead, QuinStreet affiliates typically use search-engine-optimization (SEO) techniques and pay for Google search ads to drive traffic to their low-quality sites. QuinStreet itself also relies heavily on paid search results to garner attention for its own properties. But Google keywords in QuinStreet's main verticals are some of the most expensive there are, with "insurance" clicks costing almost \$50 each and "degree," "business software" (relevant to QuinStreet's B2B vertical), "loans," "mortgages," "banking," and a variety of homeservices keywords like "plumber" likewise ranking among the priciest. ¹² Insurance-related keywords are so expensive in part because the four largest US auto insurers – State Farm, Geico, Allstate, and Progressive – are themselves very large online marketers, making their keyword auctions intensely competitive. Over time, the prices of the most important keywords will come to fully reflect their value to the end users, and outbidding those end users in the hopes of reselling the clicks (or prospective customers) at a higher price to the very same entities cannot make money in the long run.

This problem is not merely theoretical. For example, a former Katch executive described to us how, at times, leaders in the health-insurance vertical would notice that their call center (set up to handle inbound consumer inquiries) went quiet:

We'd be like, well, what's happening to the Medicare calls? The phone's not ringing as much. And the SEM [search-engine marketing] guys would say, "Well, it's getting expensive. Everyone's buying the same words. Your bids are going up on Google. So we're pulling back just a little bit."

In other words, Katch would periodically find itself priced out of the keyword market and, as a result, see its volumes collapse. Similarly, a former leader from a QuinStreet vertical explained that QuinStreet's owned and affiliated sites stopped being highly ranked in most vertical-related search results because "the bids and the prices just go too expensive and probably didn't fit in QuinStreet's budget anymore."

To circumvent this dynamic, publishers and middlemen can try to target overlooked niches; for example, <u>carinsurancequotes.com</u>, an All Web Leads site that is now a QuinStreet affiliate, enjoys a relatively high organic ranking for the <u>search</u> string "<u>pimped out minivan</u>."¹³ But niches are, by definition, small, and they tend to eventually attract competition. The more difficult but potentially more rewarding option, pursued by some of QuinStreet's peers, is to rely less on third parties and paid clicks and instead actually build a valuable consumer product. LendingTree, for instance, has poured marketing and research dollars into creating a high-profile and trusted brand. QuinStreet, by contrast, spent just \$2.8 million in 2017 on capital expenditures and internal software development. It has never made a serious effort to become a

¹² WordStream, "The 25 Most Expensive Keywords in AdWords – 2017 Edition!," December 18, 2017.

¹³ We owe this observation to the insurance news site Coverager's January 2018 report, <u>Auto Insurance</u> <u>Leads: Measuring Quality</u>, p. 19.



cutting-edge or consumer-focused company, content instead to remain an obscure intermediary. But obscurity hasn't insulated its business model from challenge.

Low Barriers to Entry Foster Intense Competition

The barriers to entry aren't so great. To begin to try to manage the Google secret sauce for SEM and buy it at a buck and a half and then resell it at \$6.50 or whatever the margin is? I think it's pretty crowded....It seems like everybody's trying to do the same thing, so once you kind of develop your skill, and maybe get some money or some backing, why wouldn't you go do your own thing?

—former Katch executive

Since the advertising arbitrage practiced by QuinStreet and its competitors requires relatively little capital or advanced technology, it's no surprise that new entrants are constantly popping up – often led by former employees of the incumbents.

<u>Katch/Renuant</u>: Though Katch (formerly known as Vantage Media) wasn't founded by QuinStreet alums, it hired away at least seven QuinStreet employees circa 2010¹⁴ into roles including CEO and CMO, as Katch, like QuinStreet, attempted to diversify its lead-generation capabilities away from education. Katch then went on to sell its health-insurance vertical to MediaAlpha and its auto-insurance vertical to QuinStreet, whereupon one of the former QuinStreet employees left to co-found a new firm, Renuant. Though still in its earliest stages, Renuant plans to directly compete with QuinStreet:

Renuant connects auto insurance carriers and agencies with consumers interested in acquiring auto insurance policies. Renuant was formed by two industry veterans with a cumulative experience in digital advertising of over 35 years...

- Hometown Quotes: Much of QuinStreet's auto-insurance business is built on the foundation of SureHits, an advertising platform it acquired in 2008. SureHits was cofounded by <u>Jon Kelly</u>, who remained at QuinStreet for three years before leaving to become the <u>CEO and then chairman</u> of Hometown Quotes, a competing insurance-lead aggregator.
- <u>Bantam Connect</u>: Founded in July 2016, <u>Bantam Connect</u> is an insurance-lead generator specializing in "warm transfers" (industry jargon for calls with prospective customers that are seamlessly handed off in real time from the lead seller to the lead buyer). The company was founded by a former executive at insuranceQuotes, another

¹⁴ See *Katch, LLC*, v. *Jeff Sweetser*, case no. 15-CV-03760, document 22 (Declaration of Steven Yi, filed 10/15/15), p. 7.



- lead aggregator, who left when that company was acquired by Bankrate (which went on to sell it to All Web Leads). Despite its short lifespan, Bantam Connect itself was already acquired (in January) by QuoteWizard, yet another insurance-lead aggregator.
- InsuranceClicks.com: In January 2016, Inside Ventures, a lead generator previously involved in the education, insurance, annuities, and home-security verticals, hired a QuinStreet senior manager from the Financial Services vertical as "director of business development." By December 2016, the company had launched InsuranceClicks.com, seemingly modeled directly on QuinStreet's old SureHits platform. (Notably, one of the benefits touted by InsuranceClicks.com is that its "fraud prevention processes eliminate bad sources better than our competitors.")

Beyond start-ups directly tied to the incumbents, an even wider range of firms can now do anything QuinStreet does, and often better. MediaAlpha, founded in 2012, earned \$163 million of revenue in 2017; ¹⁵ EverQuote, founded in 2011, earned \$123 million of revenue in 2016; ¹⁶ and QuoteWizard, founded in 2006 and self-funded, earned about \$100 million of revenue in 2015, though it dropped to \$80 million in 2017. Evidently neither QuinStreet nor its army of affiliates could keep these firms from rapidly gaining scale over the past five to ten years. And let's not forget The Zebra (backed by Mark Cuban and now led by the former CEO of Kayak), CoverHound (a key partner of Google's when the search giant experimented with its own insurance price-comparison offering), Compare.com (a subsidiary of the large UK auto insurer Admiral Group), PolicyGenius, InsuraMatch, Datalot, Insurify, DoublePositive, Leadnomics, Precise Leads, ChimpQuote, or Young Alfred. The reality is that legions of middlemen are now vying for the attention of people shopping for insurance online, with many offering highly similar information and price-comparison tools, all hoping to profit by selling leads and clicks to the same universe of agents and insurers. QuinStreet simply doesn't have an edge.

QuinStreet Is in a Weak Position Vis-à-Vis Its Counterparties

If basically all you're giving somebody is a table of a bunch of different auto-insurance providers...somebody else can come in... If I started a blog, [Joe's]Insurance.com, I'm just going to take whichever table gives me the best payout – and that makes it really hard to maintain your margin.

—former QuinStreet employee

As a by-product of the low barriers to entry in lead aggregation, QuinStreet often finds itself at the mercy of both classes of its counterparties: publishers and advertisers.

On the publisher side, QuinStreet relies heavily on a small number of relatively high-quality sites. Two former employees told us that they estimated that 20% or less of QuinStreet and its affiliates' traffic actually provided value to clients, and it was blended in with relatively worthless

¹⁵ White Mountains Insurance Group 2017 10-K, p. 36.

¹⁶ See the 2017 *Inc.* 5000 listing.



traffic from the bottom 80% of the distribution. In fact, in one sub-vertical, 30% of all revenue at one point flowed from a *single* publisher. (Similarly, in Katch's legal dispute with a former employee who defected to MediaAlpha, the proprietary information it was aiming to protect was "the identity of the handful of key, quality publishers out of a large ocean of low quality publishers." ¹⁷)

It thus behooves QuinStreet to do anything it can to keep those few critical publishers happy. But because they have other options for monetizing their traffic, this means that QuinStreet will have to kick back a larger and larger fraction of its revenue to its key affiliates over time, putting pressure on margins (which are already thin). QuinStreet also runs the risk of losing high-quality publishers to competitors that are better able to squeeze revenue out of a given amount of traffic, whether through superior technology and operations or, more distastefully, by selling individual leads to larger numbers of buyers.

Looking at the Google results for "best car insurance rates" – a fairly common search that signals a serious shopper – demonstrates how QuinStreet has already fallen behind. Of the ads that appear, four come from insurance carriers (Progressive, Geico, Liberty Mutual, and MetLife), two come from lead aggregators (EverQuote and QuoteWizard), and one comes from a comparison/research site, consumersadvocate.org, which monetizes its insurance traffic using MediaAlpha. Of the organic search results, one is from a carrier (Nationwide), four are from sites with real content that link directly to insurance companies rather than sending traffic through a monetization platform (Nerdwallet, Clark.com, and consumerreports.org), four (including the top one) come from sites that monetize traffic using MediaAlpha (valuepenguin.com, esurance.com, thesimpledollar.com, and goodfinancialcents.com), and just one comes from a QuinStreet affiliate (DMV.org). In short, high-quality sites with insurance content good enough (or well engineered enough) to rank highly on Google have largely chosen to partner with MediaAlpha, not QuinStreet. The best publishers have already voted with their wallets, and QuinStreet lost.

Even smaller publishers can be surprisingly savvy. In an interview <u>video</u> made to promote the sale of a niche vocational-school web site garnering ~15,000 monthly page views, one small-time entrepreneur described his experience as a QuinStreet affiliate:

Have you tried Campus Explorer [a QuinStreet competitor in the education vertical]?

Just last fall...I wasn't really impressed with QuinStreet. I thought, you know, there must be more opportunity out there somewhere, so I started researching other similar providers. So I came across Campus Explorer...I threw it on the site, and almost instantly it earns more than QuinStreet, it converts better than QuinStreet, pays better than QuinStreet, so I'm glad that I found it. Kind of wish I had found it a little bit sooner.

¹⁷ See *Katch, LLC,* v. *Jeff Sweetser,* case no. 15-CV-03760, document 9 (Declaration of Patrick Cross, filed 10/1/15), p. 3.



Another <u>small-time publisher</u> documenting his "website flipping" journey likewise noted that "[w]e have tested both [QuinStreet and Campus Explorer] and found Campus Explorer to convert much better for us." Reflecting on his experience at QuinStreet, a former employee complained to us about the demanding publishers whom he had to placate:

Some of these publishers want to be paid the day the lead is sent over...There are a few out there that they'll have to actually pay pretty much on the spot....It does put you in a bit of a risky position because some publishers, especially the really high-end ones, just won't do it any other way, because they see their traffic as just that valuable. If the service rate on a lead was just 1 or 2 [lead buyers] per lead, a lot of these publishers would get upset because they wouldn't be getting as much money...and they would say, hey, if you can't get us a service rate of 4 on these types of leads, we would rather sell that lead to someone else who can.

There were times where you felt like you were working for them more than you were for your own company...when you were like, "Yeah, I'm making some guy in the middle of nowhere rich off of just clicking through a web site."

But because QuinStreet has little to offer high-quality publishers beyond more money, it will continually face the prospect of margin compression lest it lose the only real value that it brings to advertisers. As publishers, even small ones, become more sophisticated and more aware of their alternatives over time, QuinStreet's bargaining position will only worsen.

On the advertiser side, QuinStreet also faces pressure from growing sophistication, as advertisers become more selective about lead and traffic quality. One former QuinStreet employee told us that large clients felt free to demand refunds for supposedly bad leads at will, threatening not to renew their contracts if QuinStreet didn't comply; they faced little pushback. Interestingly, in fiscal year 2017, QuinStreet had to report a material weakness in its internal control over financial reporting because of improper "accounting for non-standard revenue credits...authorized but not timely communicated to [the] finance [department]."

Though management never commented on this material weakness in its earnings calls or press releases, it appears that what happened was that someone working in one of the verticals granted a client a \$0.5mm refund for bad clicks or leads – yet failed to communicate that fact to the finance department, causing the results to be misstated until the "error" was discovered. The amount may not have been material, but the incident highlights QuinStreet's weak position relative to its clients: it can be compelled to grant large, "non-standard" refunds when advertisers push back.

In short, QuinStreet lacks a durable competitive advantage. In an advertising market growing ever more efficient, it aims to profit from inefficiencies – yet an onslaught of competitors ensures that any easy profit opportunities are quickly gobbled up. Lacking the wherewithal to move

¹⁸ QuinStreet FY2017 10-K, p. 21.

¹⁹ See e.g. QuinStreet <u>FY2017 10-K</u>, p. 69.



beyond its traditional middleman role, it operates at the mercy of both publishers and advertisers, both of which QuinStreet needs far more than they need QuinStreet.

VI. QuinStreet Is a Low-Quality Organization

I mean, the reality is you have the liability. You can attempt to disclaim it, but...if your brand is affiliated with, not part of the stream, but adjacent to a stream of bad activity, that has consequences. That has consequences to your market cap.

—QuinStreet SVP of Corporate Development, Legal & Compliance, speaking at the 2015 FTC Workshop on Lead Generation²⁰

This business is so corrupt I don't think anyone should work here. What seems to be a company that helps people actually harms them financially.

constantly getting screamed at for cold calling people. borderline unethical because we lied our way through a call in order to get a lead.

—QuinStreet employee reviews posted July and June 2017 on indeed.com

Beyond the inherent flaws in QuinStreet's business model, we believe the company is simply shoddy on many fronts. (Strikingly, with an extensive 237 employee reviews on Glassdoor.com, QuinStreet boasts an average rating of just 2.4 stars out of 5;²¹ by contrast, among its competitors EverQuote, QuoteWizard, MediaAlpha, The Zebra, and CoverHound, none falls below 3.9 stars.) QuinStreet treats consumers badly; its technology is poor; and its disclosures to investors are opaque.

Consumer Mistreatment

QuinStreet's bread-and-butter "product" in many verticals is the promise of easy comparison shopping: obtaining multiple insurance quotes or mortgage rates or relevant college choices simultaneously. But what QuinStreet actually provides (on its own sites as well as its affiliates') is typically far less useful than it seems – not a comparison of actual prices but merely a set of links to click, often directing users toward options that were already obvious (like Geico in auto insurance or Quicken in mortgage). Even after entering pages of personal information merely to be "matched" with a handful of supposedly relevant links, the user often has to enter the same information again after following those links to their destinations. Furthermore, the links

²⁰ See transcript, p. 195.

²¹ A September 16, 2016, <u>review</u> by a former marketing manager nicely encapsulates many of our points above: "Dying Industry: QuinStreet's entire business model is based off of lead generation for specific market verticals including mortgages, credit cards, for profit education and auto insurance. With more companies conducting in-house marketing, and google making its way into the led-gen space, QuinStreet is slowly losing its purpose in the marketplace."



presented sometimes just direct users to yet another middleman – for instance, The Zebra in auto insurance or "Custom Rate Quotes" in mortgage. The whole process is, in our experience, confusing and frustrating.

Worse still, by completing QuinStreet's online forms, users often "agree" to be contacted by QuinStreet and four or more "partners" via autodialer. But the fine print expressing this "consent" is usually presented in tiny type, and it's clear that many users have no idea what they've agreed to. Indeed, multiple consumers have recently sued QuinStreet, alleging that they in fact never did agree to be contacted via autodialer, making QuinStreet's calls violations of the Telephone Consumer Protection Act (TCPA):

Overview of TCPA Lawsuits against QuinStreet						
Plaintiff	Individual or class action?	Date filed	Date closed			
Sanders	class	2/26/14	7/16/14			
Garlick	individual	4/3/14	10/3/14			
Shields	individual	5/5/14	5/30/14			
Debusk	class	4/6/17	4/25/17			
Becker	class	10/2/17	1/19/18			
Turner	class	3/8/18	n/a (ongoing)			
Source: PACER, Kerrisdale analysis						

Though most of these cases likely settled out of court,22 the complaints illustrate some of QuinStreet's unsavory business practices. Debusk, for instance, compiles third-party online complaints about insure.com:

²² In the Garlick case, in which the plaintiff represented herself, QuinStreet won summary judgment. The other cases were either explicitly settled or voluntarily dismissed, likely as the result of a settlement agreement.



Debusk v. QuinStreet: Abusive Phone Calls from Insure.com

Recent comments about 1-541-807-24121

1-541-807-2412

Reported on Mar 16, 2017

Calling my phone number and asking for other members in my household... that don't share the same name. The person even had their name legally changed a while back but they are asking for their old name.

1-541-807-2412

Reported on Mar 15, 2017

I have them blocked and they still get thru! Auto insurance telemarketer:/

1-541-807-2412

Reported on Mar 14, 2017

Called yesterday and today! Didn't answer as I didn't recognize the phone number. Looked up number on White Pages to see that it is Scam or Fraud. Don't answer!

1-541-807-2412

Reported on Mar 14, 2017

I didn't answer because I didn't recognize the number. I looked it up on your reverse phone tab and learned that it was suspected Scam or Fraud. I have received 3-4 calls from this number.

<u>1-541-807-2412</u>

Reported on Mar 9, 2017

calls and hangs up 1-541-807-2412

Reported on Mar 7, 2017

insure.com

1-541-807-2412

Reported on Mar 3, 2017

these people keep calling me early in the morning waking me up and then hanging up I've blocked them now. I have no idea who they are or what they want.

1-541-807-2412

Reported on Mar 1, 2017

Called and said his name and that he was from insured.com. I don't know this website. I haven't signed up for anything so I am positive this was a telemarketer of some sort.

1-541-807-2412

Source: Debusk v. QuinStreet, case no. 6:17-cv-00608, document 1, p. 5

The *Turner* case, on the other hand, focuses on text messages sent by QuinStreet's Schools.com operation. According to the plaintiff, Schools.com texted her once a day for seven days starting on August 9, 2017, and then nine more times in October, even though she "had no relationship with [QuinStreet] and did not know why she received messages purporting to be from [QuinStreet]. [She] has not provided her phone number to [QuinStreet]."²³

¹ http://mrnumber.com/1-541-807-2412

²³ *Turner* v. *QuinStreet*, case no. 3:18-cv-01486, document 1, pp. 2-5.



Though QuinStreet would like to <u>downplay</u> such lawsuits as the work of conniving plaintiffs and lawyers, not genuine victims, they share too much in common with complaints found outside the legal realm to be pure fabrication. Below we present a selection:

- 8/11/15: "I have gotten a number of calls from this number. Initially they all came in generically as 'Albuquerque NM' and I immediately blocked them. Now, today the caller ID reads 'QUINSTREET' which Google reports to be quinstreet.com which claims to be 'The Leader in Vertical Marketing and Media Online.' And since I have never done business with them and they are robodialing my unlisted line they're also breaking the law. Perhaps I'll notify the state attorney general and/or file a DNC complaint."
- 8/12/15: "Calls like an overly obsessed girlfriend. Get the hint, I'm not going to answer
 your calls. ID has changed from Quinstreet to Unknown in the last couple of calls. Nice
 try."
- 1/19/16: "Caller ID says QUINNSTREET. Has called 3 times in the last 24 hours. Waits on the line to go to voicemail but doesn't say anything 8 seconds of silence then a hang up. Frustrating! Why go to the trouble of calling and then say nothing?"
- <u>5/12/16</u>: "I got a call from this number asking if I received an auto-insurance quote in the mail that I never requested. He said he was from "improvement Center." I told him I am not looking for auto-insurance."
- <u>3/7/17</u>: "Quinstreet. No message. When I called number back got recording saying Quinstreet would be happy to drive my business forward. No business. No solicting. Bothersome repeat caller. Blocking call."
- <u>5/19/17</u>: "I work in Dearborn MI and this number keeps calling my work phone several times a day and never leaves a message. I called back and it's some marketing company called Quinn Street (http://quinstreet.com/) saying they can help me 'move my business forward.' You'd think will all the hangups they get from me, they'd take the hint to stop wasting their time."
- 6/14/17: "Receive a call every day. Luckily I have them blocked so I never hear the call. I called back one day and it is a Mortgage Loan business phone. I was on line checking mortgage rates and somehow started receiving calls immediately from various mortgage companies without every applying. I told them to remove my number. still calls every day. No message left."

Not only do those incessant calls irritate and confuse consumers; they also demoralize QuinStreet's call-center staff, as the following recent comments from Glassdoor show:

- 10/19/16: "Poor leads but you are still held accountable to reach a monthly quota. I felt that the selling tactics were borderline lacking integrity."
 - 2/22/17: "You're stuck on a phone 24/7 and when people get angry and start to cuss you out you can't hang up. You have to sit there and do this 3 strike rule which just makes the customer even more pissed."
- 5/22/17: "You get trained in a classroom setting for a couple days and then you shadow a couple people that honestly have not been there very long, because in realty no one



- could stand being yelled at, cussed at, and basically treated like a child since the socalled customers, have no idea how to use the internet."
- 10/11/17: "If you get screamed at and cussed out, you STILL have to stay on the phone and go through a 3-strike rule which only angers the customer more. Constant meetings about telemarketing laws--makes sense, but the entire place needs to calm down out a bit."
- 3/28/18: "Horrible job. Do not lower yourself to this. Corrupt and unrewarding line of
 work. You are tricking decent people who are looking for jobs into being telemarketed by
 profit driven schools. You will hate yourself and your voice after repeating the same lines
 for weeks You are a liar on every call, you are not helping people, you are deceiving
 them."

Regardless of whether the targets of QuinStreet's telemarketing technically "agreed" to the treatment they received, it's clear that many consumers never wanted to be called – yet QuinStreet employees are nonetheless trained to try push through their resistance and sell them as leads. Legal or not, resorting to such shenanigans is the mark of a low-quality business.

Weak Technology

Despite QuinStreet's long history of operating online, our research suggests that it's far from the cutting edge. As one former QuinStreet employee put it, the company's platforms are "proprietary, but they're old,...tedious to work with," and "clunky." Completing basic tasks requires manual workarounds of longstanding bugs, while key systems like SureHits went almost untouched for many years, even as high-tech competitors like MediaAlpha emerged and drew away clients with their more up-to-date approaches.

Though QuinStreet boasts about how many of its employees are developers (30% of the total), most of these are based in the Indian city of Pune, where the time difference and, in some cases, language barrier makes close collaboration with US-based employees slow and difficult. Two former employees remarked that it took a surprisingly long time ("forever") to get the developers to make even small changes to QuinStreet's sites, hampering the company's ability to adapt to changes in the market.

These comments are echoed on Glassdoor by multiple employees and former employees:

- 10/25/16: "Not using the latest technology trends. Systems are outdated."
- 1/17/17, Pune-based senior software engineer: "Company doesn't seem to be going anywhere"
- 12/6/17: "Platforms are extremely antiquated and slow. Billing and commission processes are very manual and disorganized."
- 4/1/18, another Pune-based senior software engineer: "If you want government type of job where you don't want to update yourself with the latest technology and if you are afraid of competition its perfect home for you. ... Zero technical growth you wont' see



Quinstreet presence in any technical conference, workshops they work on ancient technologies and hence never promote their employees to upgrade their technical skills. If you want to learn new things then please take a U-turn"

When an internet-centric company inspires such pointed criticism of its technology from the people who know it best, how confident can one be in its long-term survival?

Opaque Disclosures

Making sense of QuinStreet requires digging around through online message boards and other sources off the beaten path because the company's own disclosures are so sparse. For example, we have no clear answers to the following questions:

- How does QuinStreet's agreement with All Web Leads actually work? (Does QuinStreet
 pay a fixed fee for clicks it can then resell, or does it pay AWL a percentage of revenue?
 Does AWL help handle QuinStreet's leads?)
- What exactly has driven the growth in QuinStreet's relationship with Progressive, and how durable is it?
- How much of QuinStreet's total revenue comes from clicks vs. leads vs. calls?
- How much of QuinStreet's total traffic comes from paid search, or inbound links?
- How much comes from owned vs. affiliate sites?
- How many visitors does QuinStreet's network of sites actually attract in a given year?
- How do profit margins vary by vertical?
- How does cost of revenue (by far the single largest expense line) break down into its components – for example, revenue-share payments to third-party sites vs. compensation paid to QuinStreet developers vs. keyword buys from Google?

These are all fairly basic questions that get to the heart of how QuinStreet makes money, yet the company answers none of them. By contrast, when Bankrate was still public and owned its insurance segment, it routinely disclosed metrics like number of consumer inquiries per quarter, which enabled investors to track pricing (revenue per inquiry) separately from volume. Moneysupermarket Group, a publicly traded UK firm with many similarities to QuinStreet, discloses even more performance indicators, like unique monthly users, net promoter score, marketing margin, revenue per active user, and number of "providers" (affiliates); it even disaggregates marketing spending by medium (TV & radio, online, etc.).²⁴ QuinStreet, on the other hand, can sometimes seem like a black box.

Part of the problem is that QuinStreet is constantly changing strategies in order to keep its head above water in its cutthroat, low-barriers-to-entry competitive landscape. It can be difficult to

²⁴ See e.g. Moneysupermarket's preliminary results 2017 presentation, February 22, 2018.



focus investor attention on key performance metrics if those KPIs are constantly changing due to strategy shifts. Consider the evolution of QuinStreet's auto insurance vertical. When it initially bought insurance.com, QuinStreet was at pains to insist that it was *not* taking on the insurance agents that used to work for the site; they were all fired before the acquisition. Instead, QuinStreet would monetize the site purely by selling clicks and leads. When the insurance vertical ran into trouble, though, QuinStreet reversed course, talking up a new model in which its own insurance agents would directly sell policies, supplementing traditional click and lead revenue. But when this new model eventually launched, we believe, based on our discussions with former employees and other industry participants, that direct policy sales had little success. In 2017, QuinStreet quietly sold off the call center that it had built up to house its insurance agents, effectively admitting defeat. Thus QuinStreet went from abhorring the notion of employing its own insurance agents to promoting it as the core of its new and improved business model to giving up on it once more.

VII. Valuation

Comparable-Company Multiples Suggest ~50% Downside

What multiple does one put on a low-quality company with poor disclosures, weak technology, a track record of legally dubious consumer-facing business practices, no long-term competitive advantage, dangerous single-customer concentration, and an unknown amount of potentially bogus revenue? In what follows, we temporarily set aside all these dire concerns and simply ask, as a starting point, what QuinStreet would be worth were it valued like similar firms. Unfortunately, there are no good publicly traded comps, but there's enough information available to extract useful conclusions.

As previously discussed, MediaAlpha is an online marketing company operating in many of the same verticals as QuinStreet – auto insurance, health insurance, education, home services. Its business is similar; it intermediates between vertical-specific lead-generating web sites and advertisers. Unlike QuinStreet, however, MediaAlpha does not primarily acquire leads as principal and seek to re-sell them; instead, it operates online exchanges that directly and transparently connect buyers and sellers of leads, with MediaAlpha taking a cut of the resulting transactions. This model has been working well since the company's birth in 2011, with the company's CEO recently characterizing its position in the auto, health, and life-insurance verticals as "dominant."

Though MediaAlpha itself is not publicly traded, its largest shareholder is. White Mountains Insurance Group, a \$3B market-cap insurance holding company, first invested in MediaAlpha in 2014, acquiring 60% of the company for \$28 million.²⁵ In October 2017, it increased its ownership to 64.4% in exchange for an incremental \$12.5-million investment, thereby valuing

²⁵ White Mountains Insurance Group 2014 10-K, p, 25.



MediaAlpha's equity at \$284 million. With MediaAlpha now a sufficiently important part of White Mountains to become its own reportable segment, we have greater insight into its financial performance, summarized and compared to QuinStreet's below. With just 51 employees, MediaAlpha generated \$163 million in revenue (up 40% year over year) and \$11 million in operating earnings. Strikingly, despite its far faster revenue growth and higher profitability even in absolute dollars, MediaAlpha's enterprise value, based on the October 2017 capital raise, is just half of QuinStreet's – a clear sign of QuinStreet's overvaluation. Who wants to pay so much more for a slower-growing company that makes less money using inferior technology and an outmoded business model?

Relative Valuations of QuinStreet and MediaAlpha: QuinStreet Is Slower-Growing and Less Profitable Yet Dramatically More Expensive					
	Quii	nStreet	MediaAlpha		
Employees		469		51	
(\$ in mm)					
Revenue	\$	336	\$	163	
Y/y growth		12%		40%	
Total transaction value*		336		219	
Y/y growth		12%		25%	
EBITA	\$	10	\$	11	
Enterprise value:					
Equity value	\$	614	\$	284	
Debt		-		24	
Less: cash		(42)		(9)	
Enterprise value	\$	572	\$	299	
EV/EBITA		60.2x		26.9x	
EV downside to peer valuation		-55%			
Implied share price	\$	5.98			

Source: company filings, Kerrisdale analysis

Similarly pointing to a far lower fair value for QuinStreet is another comparable transaction in insurance lead generation: All Web Leads' purchase of Bankrate's insurance segment.

^{*} For QuinStreet, all transactions with advertisers are reported as revenue, so revenue equals transaction value. For MediaAlpha, transactions done on certain platforms are reported as revenue on a net basis, i.e. just MediaAlpha's fee, not the full click/lead/call purchase price, so revenue does not equal transaction value. See White Mountains Insurance Group 2017 10-K, p. 6.

²⁶ \$12.5 million divided by the incremental 4.4% ownership obtained. See White Mountains Insurance Group 2017 10-K, p. F-17.



Announced in November 2015, the \$165-million deal included properties like insuranceQuotes.com, CarlnsuranceQuotes.com, and AutoInsuranceQuotes.com, all of which seek to attract leads and sell them to carriers. On its third-quarter 2015 earnings call, Bankrate's CFO disclosed that "[t]he \$165 million represents a multiple of approximately 8.6 times last 12 months insurance segment adjusted EBITDA less CapEx."²⁷ Below we apply the same multiple to QuinStreet, yielding an implied equity fair value of just \$4.57 per share, 63% below the current price. Though a two-year-old deal may seem slightly stale, the intimate relationship between All Web Leads and QuinStreet makes it especially relevant.

Valuing QuinStreet Like the Bankrate						
Insurance Segment						
Bankrate Insurance:						
Price/(LTM EBITDA - capex)		8.6x				
(\$ in mm)						
QuinStreet (LTM):						
Adjusted EBITDA	\$	24				
Less: capex		3				
Adj. EBITDA - capex	\$	22				
Implied EV	\$	186				
Plus: cash		42				
Implied market cap	\$	228				
Implied share price	\$	4.57				
Downside		-63%				
Source: company filings, Kerrisdale analysis						
Note: adjusted EBITDA excludes stock-based						
compensation, in line with both Bankrate and						
QuinStreet's definitions of the term. Capex						
includes capitalized internal software						
development costs.						

QuinStreet's own most recent acquisition also highlights the low valuations in its sector. In November 2017, QuinStreet bought the auto-insurance, home-insurance, and mortgage verticals of Katch, LLC, another lead generator, for \$14 million. On its fiscal-second-quarter earnings call, QuinStreet disclosed that Katch would contribute revenue of "approximately \$4 million per quarter going forward." In other words, the purchase price was just ~0.9x revenue. Applying this multiple to QuinStreet would value the stock at just \$6.74 per share, 45% below the current price.

Overall, then, these three recent transactions, involving three different buyers – the insurance company White Mountains, the private-equity-backed lead generator All Web Leads, and

²⁷ Source: Bloomberg transcript of Bankrate Inc. earnings calls, November 5, 2015, p. 4.

²⁸ QuinStreet FY2018 Q2 10-Q, p. 10.



QuinStreet itself – tell a consistent story, valuing QuinStreet at roughly \$5-7 per share. Even without considering the company's numerous unique risks, its equity is severely overvalued, with 45-63% downside.

Key Insiders Have Already Begun Selling

Based on the behavior of several important QuinStreet insiders, we may not be the only ones who believe the stock is overvalued. Split Rock Partners, a venture-capital firm based in Minnesota, was, at the time of QuinStreet's IPO, one of the company's largest shareholders – second only to founder and CEO Doug Valenti.²⁹ One of Split Rock's founding managing directors, James Simons, has served on QuinStreet's board since its inception in 1999.³⁰ Within months of the 2010 IPO, Split Rock began to sell shares at prices around \$20, but by May 2011, with the stock in the early stages of its multi-year collapse, Split Rock pumped the brakes.³¹ Thus began a nearly seven-year hiatus. As QuinStreet's share price dropped from the teens to less than \$3, Split Rock held on, even during temporary rallies. On December 15, 2017, however, something changed, and, with the price dramatically higher than its recent lows, Split Rock began to sell again. From then till its last disclosure, Split Rock has gradually liquidated 27% of its position, selling as recently as March 16th and at prices as low as \$8.30 – 33% below the current level.³² When an investor so committed to QuinStreet and so clearly sensitive to price – preferring to hang on for years rather than accept seemingly low valuations – finally decides that the time is right to sell, it suggests that the stock has gotten ahead of itself.

Split Rock is not alone in selling. QuinStreet's founder and CEO, Doug Valenti, also sold shares after the IPO, at prices in the teens and low 20s, only to stop in May 2011 – but begin again some seven years later, this February (and continuing into March),³³ pursuant to a trading plan adopted on November 30th.³⁴ Valenti even went out of his way to exercise options not expiring till 2020 and 2023 in order to trim his exposure at recent prices.³⁵ Though the official justification is "long-term estate planning and diversification objectives,"³⁶ the fact remains that those objectives were apparently not compelling enough for Valenti to draw up actual selling plans until QuinStreet's stock price began to exceed \$10.

²⁹ See QuinStreet prospectus, February 10, 2010, p. 102.

³⁰ See e.g. QuinStreet proxy statement, September 12, 2017, p. 8. QuinStreet was incorporated on April 16, 1999 (see e.g. <u>FY2017 10-K</u>, p. 4). It appears that Simons followed QuinStreet from St. Paul Venture Capital, an <u>early</u> QuinStreet investor where he served as general partner, to Split Rock, which was founded in 2004.

³¹ Source: Bloomberg.

³² Source: Kerrisdale analysis of Split Rock Forms 4. Note that we include in Split Rock's total share count shares legally held by James Simons but contractually held "for the sole benefit of" Split Rock" (see e.g. Form 4 filed March 19, 2018, footnote 4.

³³ Source: Bloomberg.

³⁴ See e.g. Form 4 filed March 15, 2018, footnote 1.

³⁵ Form 4 filed March 15, 2018.

³⁶ See e.g. Form 4 filed March 15, 2018, footnote 1.



Nor was Valenti alone. QuinStreet's CFO, Gregory Wong, established his own trading plan on December 13th, and began to sell shares on March 15th.³⁷ From QuinStreet's CFO to its CEO to one of its earliest and most important investors, then, we see a common theme starting at the end of 2017 and continuing through to the present: a sudden urge to sell shares.

VIII. Conclusion

QuinStreet is a relic of a bygone era: the early days of online marketing, when website operators didn't know how to monetize their traffic and advertisers didn't know where to put their ads. QuinStreet did, or so it claimed, and thus it generated real value. In the past two decades though, a lot has changed. As online marketing has exploded and transformed, and practices have grown far more sophisticated, QuinStreet has remained much the same: still relying on a network of "shady" third-party affiliates to attract visitors, still enticing them to provide personal information with a variety of "borderline unethical" techniques. But as clients continue to crack down on phony traffic and low-quality leads, and the company faces fresh scrutiny, it will become clearer what has long been the case: when it comes to QuinStreet, something just doesn't click.

³⁷ Form 4 filed March 16, 2018.



Full Legal Disclaimer

As of the publication date of this report, Kerrisdale Capital Management LLC and its affiliates (collectively "Kerrisdale") have short positions in and own put option interests on the stock of QuinStreet, Inc. ("QNST"). In addition, others that contributed research to this report and others that we have shared our research with (collectively with Kerrisdale, the "Authors") likewise may have short positions in the stock of QNST. The Authors stand to realize gains in the event that the price of the stock decreases. Following publication of the report, the Authors may transact in the securities of the company covered herein. All content in this report represent the opinions of Kerrisdale. The Authors have obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented "as is," without warranty of any kind – whether express or implied. The Authors make no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results obtained from its use. All expressions of opinion are subject to change without notice, and the Authors do not undertake to update or supplement this report or any information contained herein. This report is not a recommendation to short the shares of any company, including QNST, and is only a discussion of why Kerrisdale is short QNST.

This document is for informational purposes only and it is not intended as an official confirmation of any transaction. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. The information included in this document is based upon selected public market data and reflects prevailing conditions and the Authors' views as of this date, all of which are accordingly subject to change. The Authors' opinions and estimates constitute a best efforts judgment and should be regarded as indicative, preliminary and for illustrative purposes only.

Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential complete loss of principal. This report's estimated fundamental value only represents a best efforts estimate of the potential fundamental valuation of a specific security, and is not expressed as, or implied as, assessments of the quality of a security, a summary of past performance, or an actionable investment strategy for an investor.

This document does not in any way constitute an offer or solicitation of an offer to buy or sell any investment, security, or commodity discussed herein or of any of the affiliates of the Authors. Also, this document does not in any way constitute an offer or solicitation of an offer to buy or sell any security in any jurisdiction in which such an offer would be unlawful under the securities laws of such jurisdiction. To the best of the Authors' abilities and beliefs, all information contained herein is accurate and reliable. The Authors reserve the rights for their affiliates, officers, and employees to hold cash or derivative positions in any company discussed in this document at any time. As of the original publication date of this document, investors should assume that the Authors are short shares of QNST and stand to potentially realize gains in the event that the market valuation of the company's common equity is lower than prior to the original publication date. These affiliates, officers, and individuals shall have no obligation to inform any investor or viewer of this report about their historical, current, and future trading



activities. In addition, the Authors may benefit from any change in the valuation of any other companies, securities, or commodities discussed in this document. Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of the Authors' operations and their affiliates. The compensation structure for the Authors' analysts is generally a derivative of their effectiveness in generating and communicating new investment ideas and the performance of recommended strategies for the Authors. This could represent a potential conflict of interest in the statements and opinions in the Authors' documents.

The information contained in this document may include, or incorporate by reference, forward-looking statements, which would include any statements that are not statements of historical fact. Any or all of the Authors' forward-looking assumptions, expectations, projections, intentions or beliefs about future events may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond the Authors' control. Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on all securities, companies, and commodities discussed in this document and develop a stand-alone judgment of the relevant markets prior to making any investment decision.