



## QuinStreet IPO Leads the Pack

### Diverse Group to Test the Markets

This week is slated to see a diverse group of companies test the IPO market. Four companies were scheduled to list on the NYSE yesterday: **Graham Packaging ( GRM )**, a supplier of plastic consumer products; **Piedmont Office Realty ( PDM )**, an office REIT; **JinkoSolar ( JKS )**, a Chinese solar company; and **Patriot Risk Management ( PMG )**, a workers' compensation risk insurer that had originally planned to price last week. Two additional companies are scheduled to begin trading on Thursday, Feb. 11: **Generac Holdings ( GNRC )**, which manufactures standby generators, and **QuinStreet ( QNST )**, which provides online lead generation. Of this group, QuinStreet's unique business model and track record of growth may make it the most interesting to IPO investors. QuinStreet plans to raise \$180 million by offering 10 million shares at a range of \$17-\$19 with Credit Suisse ( CS ), BofA Merrill Lynch ( BAC ) and J.P. Morgan ( JPM ) as the joint bookrunners on the deal.

### The Business

QuinStreet is an Internet marketing company that generates revenue by connecting its clients, which are primarily companies in the education and financial services verticals, with new customers, who typically submit requests for information on client products while browsing sites that are owned by QuinStreet (30%) or third-parties (70%). Under its unique business model, it provides measurable results to clients in the form of qualified leads or clicks while being paid on a negotiated per-click basis. With an increasing shift from traditional to online advertising and a \$25 billion market opportunity, QuinStreet believes it can continue to develop its top line, which has grown at a 33% CAGR over the past 5 years, at a 15-20% clip. The company generated \$156 million in sales and \$33 million in EBITDA (21% margin) through the six months ended December 2009, an improvement from the year-ago period, which saw \$123 million in sales and \$23 million in EBITDA (19% margin).

### Key Issues

Our biggest concern is that despite compelling growth prospects, the company is heavily reliant on acquisitions and has made over 100 since 2007, clouding its organic growth profile. Though QuinStreet has attempted to diversify into other verticals such as home services and healthcare, this expansion has yet to scale. Additionally, clients within already existing verticals are consolidated with the top three constituting 32% of sales, and its top client, DeVry University (DV), has recently scaled back its purchases.

### Looking Ahead

With the recent setback in the general markets, investors have curbed their risk appetite, resulting in a shaky start to the 2010 IPO market: only one out of four companies scheduled to go public last week, **Ironwood Pharmaceuticals ( IRWD )**, successfully completed its deal. However, as a growing pure-play lead generation company backed by VC firms such as Split Rock Partners (13%) and Sutter Hill (8%), QuinStreet has been touted as a company that has the potential to buck this trend. Adding to media interest is the involvement of Frank Quattrone, whose technology-focused banking boutique is acting as financial advisor on the deal. Overall, though we expect to see some sensitivity toward the price given the volatile environment and the key issues described above, we believe QuinStreet's growth strategy and impressive financials should help drive interest in the deal.

Http News Link: <http://community.nasdaq.com/News/2010-02/QuinStreet-IPO-Leads-the-Pack-.aspx>