

# The QuinStreet Business Model

*The below discussion of QuinStreet's market opportunity and business model is based on our CEO's prepared remarks from the Company's April 25, 2018 conference call with investors to review quarterly financial results. The remarks have been edited for this posting.*

Growth continued to accelerate in the fiscal third quarter, and we continued to expand margins and cash flow.

I wanted to spend some time explaining what is driving our business momentum and describing, or reminding, in some detail how our business model works.

## **BUSINESS OPPORTUNITY AND DRIVERS OF MOMENTUM**

### **Shifting Marketing Spend to Digital Performance Marketing**

QuinStreet's business momentum is being driven by two main, fundamental factors. The first is the shift of marketing dollars to digital media. That is increasingly where customer prospects are spending their time and beginning their search for a product or service. Within digital media, due to growing sophistication and digital's inherent measurability, there is a shift to performance marketing. And we are a leading, trusted, digital media performance marketing platform.

### **Our New Products and Media Strategies**

The second fundamental factor driving our renewed business momentum is the success of our new products and media strategies. The new products increase our ability to optimize performance marketing programs for clients and media, and to do so even more measurably and transparently. They meaningfully strengthen our already formidable technology competitive advantages.

The new media strategies broaden our coverage of digital media sources that contain “research and compare” consumers. This increases our footprint for growth, diversifies our mix and reduces disruption risks.

### **Performance Results for Consumers and Clients**

It is clear from our results that these product and media strategies are working. Clients are achieving their marketing objectives and growing spend with us. Consumers are finding the products and services or solutions they need, and they are engaging, matching and converting into customers for our clients. And, they are doing so, in our case, on a voluntary, intent-driven and opt-in basis.

### **The Confidence and Trust of Big Branded Clients**

We serve some of the biggest companies and brands in the world. These big, brand name clients are ever-more sophisticated. They are capable of and focused on directly measuring marketing results, and on monitoring online campaigns and flows. With all their sophisticated capability and focus, and increased scrutiny, these clients are allocating more spend, more confidently to us based on demonstrated measurable performance and compliance.

We continue to be a leader in managing network quality and compliance, an area of significant focus and investment for QuinStreet, and an area of competitive advantage for us versus our mostly smaller competitors. These advantages are enhanced and reinforced by our performance marketing and “right pricing” business model. Something I will say more about in a moment.

So those are the main drivers of our extraordinary business momentum. Spend increasingly shifting to digital media and performance marketing, and spend growing with us due to our ability to deliver measurably effective results consistently, transparently, and compliantly at scale. All greatly enhanced by our new product and media strategies.

## **BUSINESS MODEL**

I want to talk more generally about QuinStreet's business model and to make three points:

- 1. We are a “pure play” in performance marketing.**
- 2. Our value proposition to clients and media is clear and strong.**
- 3. We have substantial, sustainable competitive advantages.**

### **A Pure Play in Performance Marketing**

Number one, and perhaps most important to understand about our business model, because it overlays everything else, is that QuinStreet is a “pure play” in performance marketing. That means that what we get paid is directly tied to, and right-priced for, the actual results we deliver for clients. And in our world, results are pretty simply defined as consumers converting into valuable customers for our clients.

If our information or matching does not work for consumers such that they voluntarily proceed through our online flows on an opt-in basis, or if the clients to whom we match consumers do not satisfy their needs (as demonstrated by consumers' voluntary conversion into customers), we cannot deliver results.

Similarly, if the actual results (that is, consumers voluntarily converting into valuable customers) do not work measurably for our clients, then they will not spend, let alone grow, their marketing dollars with us.

We could not exist for 19 years, get to \$400 million plus in annual revenue, grow at more than 30% year-over-year, and be profitable, if our campaigns did not measurably and sustainably work for both consumers and clients.

## **Our Value Proposition – Harnessing and Managing the Digital Channel**

Number two regarding our business model, our value proposition to clients and media is clear and strong. We harness the potential of digital media. The Internet is now essentially the biggest shopping channel in the world for everything. It is where most consumers begin their journey to search for products and services, or solutions, and for solution providers. It is also an enormously complex and fragmented medium. Complex and fragmented well beyond most companies' ability to build the expertise and technologies to meaningfully, let alone fully, harness its potential.

Clients work with us because we do have that expertise and technology. We have a deep understanding of the channel and of the innumerable types and sources of media where “research and compare” or “high intent” consumers can be found and engaged. We also have deep relationships, integrations and technologies to access, filter, sort, and yield that media opportunity and complexity for clients, sustainably, consistently, effectively, and at scale. And we have the capabilities to do so compliantly. We continuously audit our network, and our network is audited by dozens of client teams and third-party service providers on an ongoing basis, and has been for years.

## **Our Value Proposition – Structural Media Buying Power Advantage**

Beyond harnessing the complexities of participating in digital media for clients, we make it a measurably productive, economic and scalable customer acquisition channel for them. We do that by applying our core technologies, expertise and algorithms fed with many years of experience and billions of dollars of media spend. These capabilities allow us to most effectively access and engage consumers in digital media and then match them to the right clients - the ones that can meet their needs.

Matching more consumers in digital media to the right clients gives us a huge structural media buying power advantage versus other platforms or versus any single client trying to afford to buy the same media. In general, a single client can only match or serve a very narrow set of consumers in the vastness of digital media, making buying much of the media simply unaffordable without us, even if they had the ability to deal with its complexity. This media buying power advantage is the most fundamental advantage of our business model and explains our indispensable role in the channel, micro-economically.

Clients understand our role and its advantages for them in the channel and they take and get advantages from our “aggregated” buying power to access digital media more fully and more affordably.

### **Substantial, Sustainable Competitive Advantages**

Number three regarding our business model, QuinStreet has real and deep competitive advantages. They are network, experience and technology based advantages. The fact that we have real competitive advantages is evident from our success; from our ability to get to and sustain scale and profitability; and from our performance for so many years through so many changes and cycles of competition in our channel. But let me review the specifics of those competitive advantages with you.

First, what they are not. Our competitive advantage is not branded traffic flows to our own web properties. That is the domain of others, like LendingTree and HomeAdvisor, both of whom have done a great job with that strategy, and both of whom are largely complementary to us in the channel. Nor does our main competitive advantage lie in building vast amounts of free or organic traffic like, say, BankRate was able to do. That too is the domain of others, many of whom, by the way, are our media partners.

Our key competitive advantages lie in two main areas: one, in our networks and marketplaces, and two, in our experience and technologies for making those networks and marketplaces maximally productive from a marketing and media effectiveness point of view.

### **Large, Integrated Networks**

Regarding our networks, we know of no one that has broader reach and integrations into more types and sources of productive high intent consumer digital media than we do in and across our verticals. Nor do we know of anyone that combines that vast reach, experience and expertise in digital media with large networks of and integrations with clients that can serve the consumers in that media.

### **Leading Technologies for Effective Virtual Marketplaces**

We combine our networks of digital media sources and clients that can serve them into highly productive “virtual marketplaces”. We do so by applying what we believe are the world’s leading technologies, products and platform designed specifically for that purpose. In fact, we are confident that our technologies are our industry’s most extensive, advanced, effective and proprietary for doing so.

QuinStreet has always focused on technologies, products and platform as key competitive advantages. Over 30% of our employees are in engineering and technical roles, and that has pretty much always been the case. Our investment and expenses in building and making ongoing improvements to our technologies, products and platform have been compounded over 19 years, and those quite substantial and still ongoing investments are embedded in the depth of those capabilities and as a significant competitive advantage in our business model.

## **A Steep, Expensive Experience Curve**

These technologies, products and platform include merchandizing flows, experience-driven matching engines and artificial intelligence algorithms, fed with many years and billions of dollars of actual media buying results. Information you only get through spending and experience, giving us what we believe to be unsurpassed expertise and capability in this model in this channel, and a big experience curve competitive advantage. We apply that expertise and capability to best yield media and to generate strong sustainable revenue streams for our media partners and from our direct media buys. In turn, we generate predictable, best-in-class-at-scale marketing results for our clients.