Zacks Small-Cap Research

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CrowdGather Inc. (CRWG-OTC)

CRWG: Monetizing its own Forum Advertising Inventory Outperform

Current Recommendation	**Outperform**
Prior Recommendation	Neutral
Date of Last Change	02/23/2012
Current Price (07/10/12)	$0.20
Six- Month Target Price	**$1.00**

OUTLOOK

CrowdGather, Inc. is an Internet company that specializes in the development and hosting of forum based Web sites.The firm endeavors to monetize a network of online forums and message boards. Forums remain a much undervalued part of the internet pie with $4.5 billion and CrowdGather is the only public company dedicated to monetizing this area. More page results equate to more revenue as page views have jumped from 12 million to 220 million per month through several mergers. The Company's focus is now on monetizing its own forum advertising inventory as well the termination of the previous Adisn revenue model.

SUMMARY DATA

52-Week High	**$0.70**
52-Week Low	**$0.11**
One-Year Return (%)	**-66.67**
Beta	**1.14**
Average Daily Volume (sh)	**92,255**
Shares Outstanding (mil)	**58**
Market Capitalization ($mil)	**$12**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**3**
Insider Ownership (%)	**31**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**N/A**
P/E using 2012 Estimate	**N/A**
P/E using 2013 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Above Avg**
Type of Stock	**Small-Growth**
Industry	**Internet-Contnt**

ZACKS ESTIMATES

Revenue
(in Thousands of $)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2010	$53 A	$58 A	$83 A	$116 A	$310 A
2011	$330 A	$463 A	$380 A	$408 A	$1,581 A
2012	$334 A	$468 A	$550 A	$581 A	$1,933 A
2013	$450 A	$475 A	$600 A	$650 E	$2,175 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Jul)	Q2 (Oct)	Q3 (Jan)	Q4 (Apr)	Year (Apr)
2010	-$0.03 A	-$0.02 A	-$.0.01 A	-$0.02 A	-$0.08 A
2011	-$0.01 A	-$0.02 A	-$0.01 A	-$0.02 A	-$0.06 A
2012	-$0.01 A	-$0.01 A	-$0.01 A	-$0.02 A	-$0.05 A
2013	-$0.01 A	-$0.02 A	-$0.01 A	-$0.01 E	-$0.05 E

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WHATS NEW

CrowdGather Aims at Monetizing its own Forum Advertising Inventory

On July 9, 2012, reported financial results for its fiscal 2012 fourth quarter and full year, ended April 30, 2012.

The strong fourth quarter performance resulted in a 42 percent year over year jump in revenues and nearly 6 percent increase sequentially, with revenues increasing to a record $580,716 during the three months ended April 30, 2012.

For the full year ended April 30, 2012, year over year revenues improved by 22.3 percent to a record $1.932 million from $1.580 million for fiscal 2011.

The year over year advance in revenue was primarily due to strategic acquisitions as well as the Company's focus on monetizing its forum ad inventory.

Recent acquisitions included Pbnation.com and Yuku.com, the Company's largest network platform.

Additionally, the focus on increasing the monetization from existing advertising inventory improved revenue per thousand impressions (RPM).

Still, net loss for the twelve months increased by $294,495 year over year, to a net loss of $3.106 million for the full year ended April 30, 2012. This compares to a net loss of $2.812 million for fiscal 2011.

The increase in net loss for fiscal 2012 was primarily due to an increase in total operating expenses which was offset by improved gross margin.

Total operating expense increased by 33.5 percent or $1.237 million year over year, to $4.925 million. The increase was primarily due to an 89 percent year over year increase in payroll and related expenses as well as an 11 percent year over year increase in general and administrative expenses.

Still, it should be noted that management expects total operating expenses to remain stable during 2013.

Gross margin jumped to 93.7 percent for the full year ended April 30, 2012 compared to 51 percent for fiscal 2011.

The improvement was primarily due to the Company's focus on monetizing its own forum advertising inventory as well the termination of the previous Adisn's revenue model, which required CrowdGather to purchase ad inventory in order to deliver advertising campaigns on behalf of direct advertisers and their agencies.

It should further be noted that the Adisn display and per-action advertising campaigns contributed to over 50% of gross revenues in fiscal 2011.

Based on a weighted average number of basic and fully diluted common shares of 58.329 million, basic and diluted net loss per share resulted in a $0.05 loss per share the fiscal year ended April 30, 2012. This compared to a basic and diluted net loss per share of $0.06 based on a weighted average number of basic

and fully diluted shares of 44.904 million during the twelve months ended April 30, 2011.

The Company reported cash of $2.328 million, no long term debt and had working capital of $2.413 million as of April 30, 2012. This compares to $2.680 million of cash and working capital of $2.812 million as of January 31, 2012.

Still, management believes the Company has sufficient working capital to maintain operations, conduct further acquisitions, and improve the monetization of existing ad inventory with its ad server to reach breakeven without additional financing.

Along the same lines, if opportunities become available, management stated that it may allocate some cash and equity toward acquisitions, depending on the Company's share price at the time a transaction is completed.

Management expects a solid Q3 and Q4 as they expect to carry the Company's positive momentum into fiscal 2013 as they work toward completing a number of initiatives that should help add to high margin revenue growth.

The Company re-launched its corporate website in an attempt to better position itself for advertisers, forum owners, and prospective investors. The new look and feel features the Company's ad supported business model and the benefits of its network for advertisers, forum owners, and general community users.

Additionally, the Company is focused on deploying the redeveloped ad server obtained during the June 2010 Adisn acquisition in late Q2 fiscal 2013.

Furthermore, management expects the ad server, coupled with the improved quality of the network, will further improve its RPM during fiscal 2013.

During April 2012, the Company reached over 220 million monthly page views across all properties, a 57 percent year over year increase, compared to 140 million monthly page views during April 2011.

Likewise, monthly unique visitors jumped 20 percent year over year to over 18 million compared to 15 million monthly unique visitors a year earlier.

Similarly, as of May 3, 2012, approximately 26.1 million users are registered on Company network sites with 70.1 million total discussions and nearly 1.2 billion individual replies. Additionally, approximately 24.9 million users are registered on CrowdGather Network sites to date with 72.0 million total discussions comprising nearly 1.2 billion individual replies.

Still, CrowdGather estimates that the ongoing removal of non-monetizable content that also conflicts with its terms of service may reduce its total monthly page views by 20 to 30 million, to approximately 180 to 190 million monthly page views network wide.

However, the Company does not expect any significant impact on revenues from the reduction and anticipates an immediate lift to RPM.

It should further be noted that the Company is in the process of migrating its third-party hosted sites, such as Yuku.com, to its own network operating center, in Los Angeles, California, as part of the Company's risk mitigation and cost savings strategies.

The relocation is anticipated to improve uptime, speed, and stability for its sites, and to also result in savings of $12,000 to $25,000 per month due to the difference between the lower cost equipment lease payments and the higher cost third-party hosting charges.

Furthermore, the Company is working toward completing a number of internal initiatives that should impact

topline growth, including the ad server launch, the development of an internal tool for monitoring and removing non-monetizable content, and general software development that will improve its communities network wide.

Likewise, CrowdGather has been working diligently to improve its brand sites as demonstrated by the re-launches of Digishoptalk.com and Pocketables.com in May of 2012.

The Company is also conducting ongoing development across all of its network properties, i.e. Yuku.com, to continue improving the administrator and user experience in the communities.

Finally, as 8 to 10 percent of all of CrowdGather's aggregate page views are mobile, management stated it is beginning to look at its mobile ad inventory and ways to monetize it.

CrowdGather intends to continue to seek other opportunities to acquire strategic properties that are expected to contribute to increased traffic growth for the Company. Zacks estimates are exclusive of any possible contribution from potential acquisitions and investors should be aware that short or medium-term pressure on the shares may exist as several deals were paid for with equity. This can cause increased selling as lock up periods expire and the third party is allowed to sell shares.

Paintball Nation

On May 25, 2011 CrowdGather announced that it has acquired the domain name, website, and assets related to PbNation.com one of the world's largest online paintball communities. According to the 8K the total purchase price for the PbNation.com site and assets is up to $3.2 million, consisting of $1.4 million in cash, 1,149,425 shares of the Company's restricted common shares, and certain additional cash and stock compensation totaling up to $800,000 if certain monthly website visitor traffic milestones are achieved. The number of shares issued was calculated by dividing $1 million by the Company's 10 day volume weighted average share price of $0.87 per share through Friday, May 20, 2011.

PbNation generates 20 million monthly page views and approximately 1.9 million monthly unique visitors. On a combined basis, the CrowdGather forum network will generate 155 million monthly page views and 15 million monthly unique visitors.

On April 18th before the market opened CrowdGather announced that it has acquired the assets of free forum hosting pioneer, Forumer.com. Forumer, which serves 35 million monthly page views across 200,000 active forums, joins CrowdGather's existing free forum hosting platforms FreeForums.org and Lefora.com in providing a wide range of alternatives to individuals seeking to build communities online. With this purchase, CrowdGather's network traffic has increased 50% this year to 135 million monthly pageviews and 13 million monthly unique visitors. This is up from 100 million monthly pageviews just prior to the transaction and 90 million monthly pageviews at the beginning of calendar 2007. In the simplest terms more page hits equates to more revenue. According to the 8K the purchase price of the website was $400,000 of which $300,000 was paid in cash and 100,000 shares of CrowdGather common stock.

On March 3rd the firm closed a private placement transaction previously announced on February 28, 2011. Under the terms of the transaction CrowdGather sold an aggregate of approximately 7,136,364 million shares of its common stock at $1.10 per share and warrants to purchase up to approximately 5,352,273 million additional shares of its common stock. The warrants to purchase additional shares will be exercisable at an exercise price of $1.50 per share and are exercisable for 5 years commencing six months and one day following their issue date.

Looking Closer at Dilution/Valuation
While there was dilution in getting from 90 million page views to 220 million, the firm essentially got from 12 million to 90 million with no dilution. With the acquisition of Adisn and Lefora the firm essentially leveraged $6.5 million in equity in exchange for an increase in revenues and page views. That stake was not dilutive given the cancellation of 5 million shares of CEO, Sanjay Sabnani's beneficial holdings in Crowd Gather. Investors that bought the stock at the time essentially got a firm that is debt free, growing page views at 750% (12 million to 90 million), revenues at over 400%, and did not suffer dilution.

Our price target is $1.00 per share, which is derived from the average of our discounted cash flow model and relative valuation model. We assumed a conservative capture of the forum market over a ten year period.

Market Share of Social Media



INVESTMENT THESIS

CrowdGather, Inc. is an Internet company that specializes in the development and hosting of forum based Web sites. It monetizes a network of online forums and message boards to engage, provide information to, and build community around users. The company is in the process of building social, advertising, and user generated content networks by consolidating existing groups of online users that post on message boards and forums. Its forum communities connect people sharing their questions, expertise, and experiences. The company holds approximately 70 Web properties hosting around 44,000 forum communities, as well as a portfolio of 300 domain names. The firm has three areas of expertise.

Premium Communities

CrowdGather acquires forums and provides them with high-quality infrastructure, software and services. Their destination forums allow for precise, targeted campaigns crafted along their verticals and command higher than market level CPMs. CrowdGather retains full control of advertising on these highly trafficked sites. Leading sites include:

Premium Communities	Targeted Vertical
Ngemu.com	Software emulators
Nsider2.com	Nintendo enthusiast community
GenMay.com	Off-topic and humor
Anythingbutipod.com	Consumer electronics media player community
AquaticPlantCentral.com	Aquascapes
Clubxb.com	Scion xB owner community
DemocracyForums.com	Politics
ABXZone.com	Computer help
Zealot.com	Hobby enthusiast forum
MotorcycleForum.com	Motorcycles
Pocketbikeplanet.com	Mini-bike owner society
Wiispace.com	Nintendo Wii enthusiast community
ZuneBoards.com	Microsoft Zune community

Forum Hosting

It also allows third-party forum owners to build their own forums for free on its proprietary free forum hosting platform; in exchange CrowdGather places advertising on these forums or offers subscription based ad-free forum creation and hosting options. There are thousands of sites in this network and it is conducive to cost-

effective, large-scale ad campaigns. The primary forum hosting sites owned by CrowdGather are:

- Lefora.com
- Freeforums.org
- Freepowerboards.com
- Makeforums.org
- Eamped.com

Advertising

In coordination with ADISN, CrowdGather's digital media agency, CrowdGather aggregates forums into key verticals to provide brand marketers relevant channels for their advertising including rich-media solutions and campaign analytics. ADISN'sexpertise in targeted dynamic campaigns combined with CrowdGather's expert knowledge in site aggregation and demographic targeting guarantees a brand marketer's message reaches receptive enthusiasts in their network and beyond.

Forums are unique

People are there precisely to discuss products or services, even specific brands. They pose questions to the community, ask for guidance or simply look to connect with people who share their passions. The audience is primed and ready for – even actively seeking – product-specific messages.

Forums remain a much undervalued piece of the internet advertising sales puzzle in part because of fear of negative feedback to a particular brand or company. However, many companies are changing their approach with the advent of social media and there is an increasing interest to listen to consumers and a value placed on the feedback through forums and message boards.[1]68%[2] of active social media users are increasing their use of message boards as a means to communicate on specific topics or to provide feedback and reviews on products or companies. In addition, CrowdGather mitigates the risk of negative brand feedback by providing oversight of their sites.

Those who contribute to online forums are[3]:

- 10 times more likely than non-contributors to also publish a blog.
- 9 times more likely to take an active role in organizing events or meet-ups for group that originally met online.
- 3.5 times more likely to proactively recommend a particular purchase to someone else
- 3.5 times more likely to share links about new products
- 4 times more likely to post online ratings and reviews, and almost twice as likely to share advice -- offline and in person -- based on information they had read online.
- Of the top 20 social networking sites in 2009, 2 of them are message boards: Yahoo Message Boards and Gaiaonline.com.[4]
- 2217% of US Internet users read message boards daily, compared to 11% of US Internet users that read blogs daily[5], 8% that watch videos online and only 6% who use Twitter daily.

[1] Groundswell Harvard Business School Press; 2008

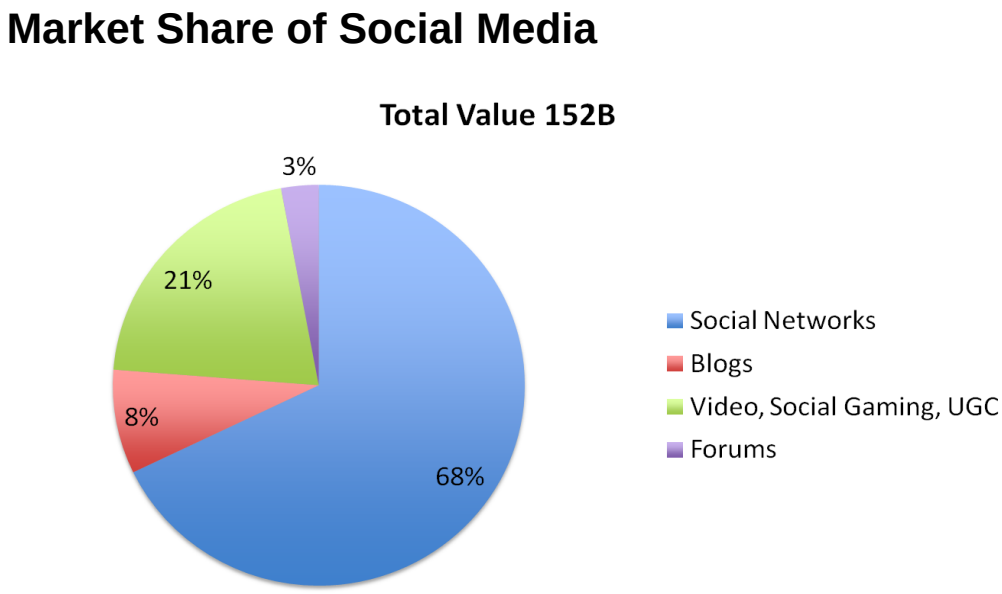
[2] eMarketer BlogHer and iVillage, "2010 Social Media Matters Study" co-sponsored by Ketchum and The Nielsen Company, April 15, 2010

[3] 2010 study conducted by Synovate on behalf of forum marketer PostRelease

[4] Hitwise, "US Data Center," August 14,2009

[5] eMarketer BlogHer and iVillage, "2010 Social Media Matters Study" co-sponsored by Ketchum and The Nielsen Company, April 15, 2010

With 50 billion posts and 300 million members worldwide,[6] community forums are 5 times larger than the blogosphere. According to Internet Brands user generated content sites are valued at $31 billion and forums represent $4.5 billion of this. CrowdGather remains the only public company dedicated to monetizing this opportunity. Forums have very high leverage and require very little upkeep since nearly all of the content is user generated. Further, the sites are generally staffed by volunteers.



Demographics

The firm has very valuable demographics with

- 67% Male.
- 45% Age 18-34
- 42% Age 35+
- 38% Have Children
- 47% College or Grad School Educated

FreeForums

On March 12, 2010, CRWG entered into a website and domain name acquisition agreement with Phil Santoro in which it acquired the website, www.freeforums.org. The total purchase price of the Websites was $1,000,000, which consisted of cash and stock. The Agreement also provides for payment of conditional traffic bonus compensation in the form of an additional $200,000 payable to Santoro in shares of common stock, if, during the following twelve months, the average monthly visitor traffic to the Websites is greater than or equal to 59.13 million monthly page views, as measured by Google analytics.

Adisn

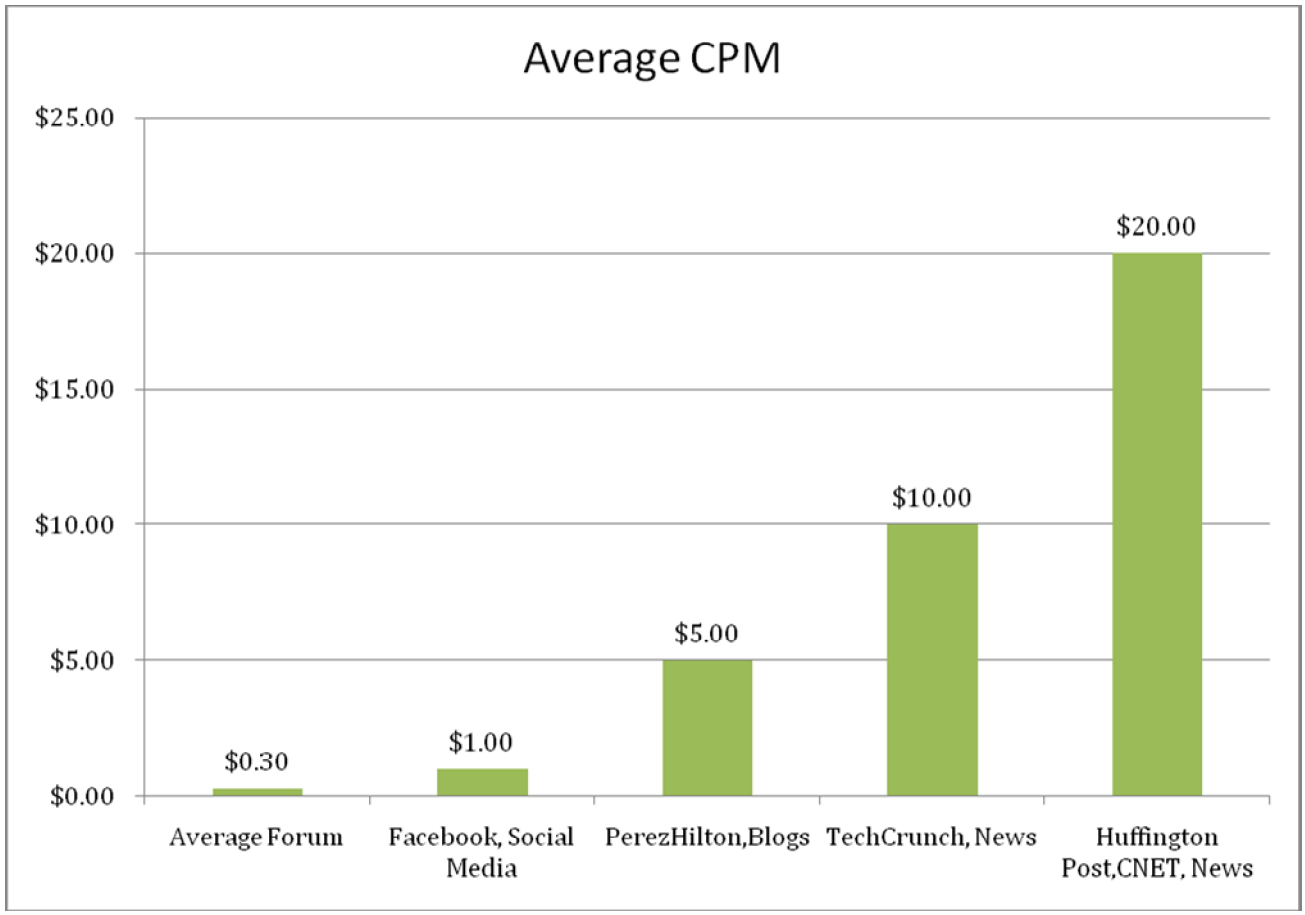
[6] BoardTracker

On June 10th 2010 CRWG announced that it acquired Adisn, a next generation Digital Ad Agency that uses relationship data from the social web to enhance targeting, for $5.5 million, the largest acquisition in CrowdGather's history. CrowdGather will issue 4,621,849 shares of common stock for the purchase. Adisn will operate as a wholly owned subsidiary of the Company. Adisn negotiates advertising rates with its customers and then purchases ad inventory from real-time advertising exchanges and online publishers at a lower cost, thus capturing the difference as net revenues. CrowdGather's unfilled ad inventory will also provide zero cost advertising inventory for Adisn's performance campaigns thus generating incremental revenue for CrowdGather. With Adisn, CrowdGather has effectively achieved two objectives: the addition of a sales force for its growing advertising network; and ad server technology that can provide analytics and tracking that are required for higher value advertising campaigns.

Lefora

On July 26, 2010 CrowdGather announced that it had signed a definitive agreement to acquire the technical assets from Lefora, to consolidate CrowdGather's market leadership in the hosted forum market. The CrowdGather network combined with Lefora's hosted forum properties will offer a search engine and social media-friendly network of forum communities that serves over 90 million monthly page views. Lefora has built up a user base of over 100,000 forum communities by virtue of its advanced functionality, combined with the simple user experience. Lefora allows less technical people to start their own community with a form-based editor to set up a forum that is also enabled for social media and search engine optimization. The combination of Lefora's technology and CrowdGather's network and monetization capabilities will make CrowdGather the leader in the hosted forum market by both reach and user experience.

CPM is an internet advertising term that stands for cost per thousand ad views. While the major internet sites such as ESPN, can be as much as $20 CPM forums can be as little as $0.30 to $0.60 this opens the firm up to advertising revenue from both small and large businesses.



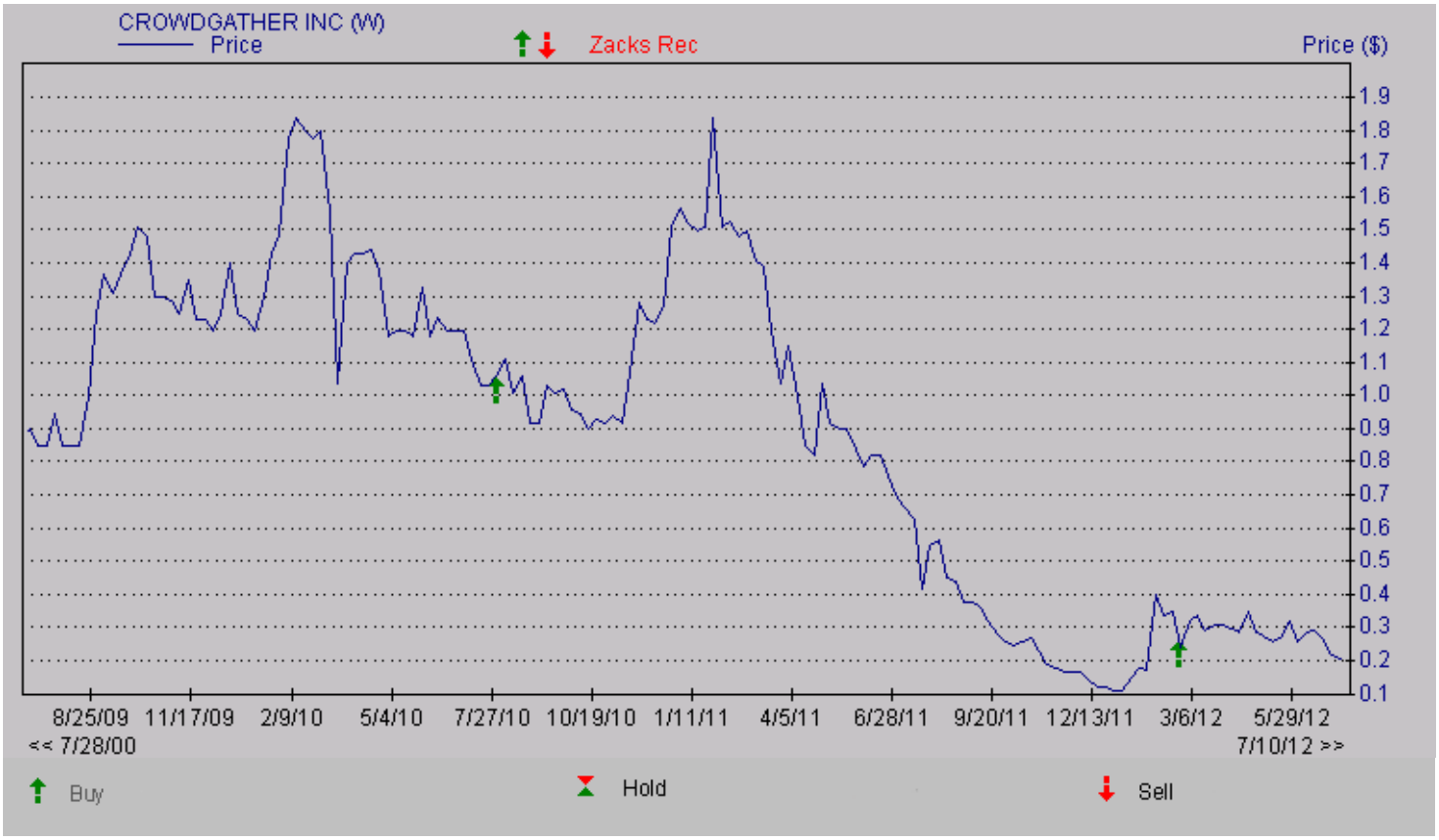
According to the Kauffman Index of Entrepreneurial Activity entrepreneurs have remained a strength of the U.S. economy amid one of the worst recessions on record. More entrepreneurs launched new businesses in 2009 than at any other time in the past 14 years. This makes sense from a logical standpoint as well. In the simplest of terms when things get rough entrepreneurs tend to take matters in to their own hands. Small businesses tend to lead economic growth, whereas large firms tend to follow it. Among small businesses, very small businesses (VSB), which the California Association for Micro Enterprise Opportunity (CAMEO) defines as 5 or less employees, come into being to meet immediate and local needs or to develop new or emerging markets by using innovation and technology. They tend to make markets. Large businesses tend to shy away from small or unestablished markets. They most frequently do not make investments until they are fairly certain that markets exist, conducting long studies and spending heavily to break into a market that already has been “pioneered” by smaller and bolder ventures.

PROJECTED INCOME STATEMENT

INCOME STATEMENT ($ Thousands)	Apr-11 Q4 11	Jul-11 Q1 12	Oct-11 Q2 12	Jan-12 Q3 12	Apr-12 Q4 12	Jul-12 Q1 13 E	FY 2008	FY 2009	FY 2010 E	FY 2011	FY 2012	FY 2013 E
REVENUE												
Net Revenue	**381.0**	**334.0**	**468.3**	**549.8**	**580.7**	**450.0**	**20.8**	**112.5**	**309.8**	**1581.0**	**1932.8**	**2175.0**
Sequential Growth		*-12%*	*40%*	*17%*	*6%*	*-23%*						
OPERATING EXPENSES												
Cost of Revenues	50.00	108.74	0.00	4.79	7.80	6.85	431.5	2489.7	2303.5	775.5	121.3	28.0
% of Revenue	*13.1%*	*32.6%*	*0.0%*	*0.9%*	*1.3%*	*1.5%*						
Gross Profit -	**331.0**	**225.3**	**468.3**	**545.0**	**572.9**	**443.2**	**-410.8**	**-2377.2**	**-1993.7**	**805.4**	**1811.4**	**2147.0**
Proforma Gross Margin	*86.9%*	*67.4%*	*100.0%*	*99.1%*	*98.7%*	*98.5%*	*-1978.7%*	*-2112.3%*	*-643.6%*	*50.9%*	*93.7%*	*98.7%*
Depreciation + Amort	0.00	0.00	0.00	0.00	0.00	0.00	0.0	0.0	0.0	0.0	0.0	0.0
% of Revenue	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
SG&A	925.00	1099.32	1228.20	1293.37	1304.86	1230.00	0.0	0.0	0	3689	4926	5056
% of Revenue	*242.8%*	*329.1%*	*262.3%*	*235.3%*	*224.7%*	*273.3%*	*0.0%*	*0.0%*	*0.0%*	*233.3%*	*254.9%*	*232.5%*
GW Amort, Restructuring, other							-	-				
% of Revenue												
Total Operating Expenses	925.00	1099.32	1228.20	1293.37	1304.86	1230.00	0.0	0.0	0	3689	4926	5056
% of Revenue	*242.8%*	*329.1%*	*262.3%*	*235.3%*	*224.7%*	*273.3%*	*0.0%*	*0.0%*	*0%*	*233%*	*255%*	*232%*
Operating Income -	**-594.0**	**-874.0**	**-759.9**	**-748.4**	**-732.0**	**-786.9**	**-410.8**	**-2377.2**	**-1994**	**-2883**	**-3114**	**-2909**
Operating Margin	*-155.9%*	*-261.7%*	*-162.3%*	*-136.1%*	*-126.0%*	*-174.9%*	*-1979%*	*-2112%*	*-644%*	*-182%*	*-161%*	*-134%*
NON-OPERATING ITEMS												
Non operating Income/Expense	0	4	2	1	1	2	1.4	-61.1	-1435	72	8	8
% of Revenue	*0.00%*	*1.08%*	*0.46%*	*0.26%*	*0.20%*	*0.33%*	*6.71%*	*-54.25%*	*-463.29%*	*4.54%*	*0.43%*	*0.37%*
Tax Provision	0.0	0.8	0.0	0.0	0.0	0.0	0.80	0.0	1	1	0.8	1
Effective Tax Rate												
Net Income -	**-594.00**	**-871.24**	**-757.73**	**-746.98**	**-730.79**	**-785.35**	**-410.18**	**-2438.21**	**-3429.7**	**-2812.2**	**-3106.7**	**-2902.4**
Net Income Margin	*-155.9%*	*-260.8%*	*-161.8%*	*-135.9%*	*-125.8%*	*-174.5%*	*-1975.8%*	*-2166.5%*	*-1107%*	*-178%*	*-161%*	*-133%*
EARNINGS PER SHARE												
EPS - Basic	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.06	-$0.08	-$0.06	-$0.05	-$0.05
EPS - Diluted	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.01	-$0.06	-$0.08	-$0.06	-$0.05	-$0.05

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