

Travelzoo, Inc.

Initiating Coverage with BUY and \$34 Target

Solid long term growth prospects and reasonable valuation make stock attractive. We recommend the stock and believe its valuation will increase as it further monetizes its subscriber base.

COVERAGE INITIATION

Rating: Buy

Ticker: TZOO

Price: \$26.26

Target: \$34.00

Solid niche in online advertising: Travelzoo has been steadily growing its travel advertising business, which is a ~\$3 billion industry in the U.S.

Benefiting from travel advertising growth: As the travel industry improves and consumers spend more time on the Internet, we believe online travel advertising will continue to grow (+10% per year).

Local Deals a major driver: Its entry into Local Deals has provided strong growth over the past year. Although Local Deals growth has moderated significantly, we expect a rebound in growth in Q1 and 2012 as its sales staff matures and it benefits from improved seasonality.

Solid profitability: Unlike others in the daily deals space, Travelzoo has grown this business profitably. It has a solid balance sheet with \$39 million in cash (~\$2.43/share) and no debt.

However, daily deals industry growth slowing: Our channel checks and industry reports show flat industry sales in the U.S. in Q4 after growing on a monthly sequential basis of +10% for most of 2011.

Increasing competition: Competition from Groupon [GRPN: Rated SELL], Amazon, Google, Living Social, and others, may drive lower revenue growth and reduced take rates, margins, and profitability. Aggregators (such as Yipit) threaten to erode brand equity.

Cannibalization of core product: With the recent rise of daily deals for travel, there is the risk that travel suppliers will switch from Travelzoo's newsletters advertising to travel daily deals (with Travelzoo or others).

Q4 Local Deals declined and consensus EPS estimates may still be too high: We estimate Travelzoo Local Deals revenues in Q4 was down (\$10 million compared to Q3's \$11 million). Due to lower growth rates for Local Deals, we believe consensus estimates may be a bit too high for Travelzoo. We have modeled EPS for 2012 of \$1.60 and 2013 of \$1.80, compared with consensus EPS for 2012 of \$1.64 and 2013 of \$1.93.

Overall, concerns outweighed by growth prospects and valuation: Despite concerns, we believe Travelzoo should continue to grow and maintain market share given its large and loyal subscriber base (over 21 million), and key travel merchant relationships. By focusing on its core strengths and targeting a smaller portion of the market (high quality deals), we believe Travelzoo will avoid the challenges facing its much larger peers.

Current valuation attractive: We looked at Travelzoo's valuation four ways (P/E, EV/Revenue, EV/EBITDAS, EV per subscribers) and each suggested that Travelzoo's current valuation is attractive compared with its peers. Our \$34 price target is calculated by applying a forward P/E of 21x our 2012 EPS estimate of \$1.60 (below the peer group median (27x) for Internet advertising companies).

Company Description

Based in New York, Travelzoo publishes emails offering travel-related specials and local travel and entertainment local deals.

January 27, 2012

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Stock Data

| | |
|--------------------------------------|--------------------|
| Exchange: | NasdaqGS |
| 52-week Range: | \$20.68 – \$103.80 |
| Shares Outstanding (million): | 16.026 |
| Market cap (\$million): | \$440 |
| EV (\$million): | \$401 |
| Debt (\$million): | \$0 |
| Cash (\$million): | \$39 |
| Avg. Daily Trading Vol. (\$million): | \$18 |
| Float (million shares): | 8.320 |
| Short Interest (million shares): | 5.000 |
| Incorporation: | Delaware |
| Public auditor: | KPMG LLP |

Revenues (US\$ million)

| | 2010A | 2011A | 2012E | 2013E |
|---------|--------|--------|--------|--------|
| Q1 Mar | \$29A | \$37A | \$42E | \$47E |
| Q2 Jun | \$28A | \$38A | \$43E | \$48E |
| Q3 Sep | \$28A | \$39A | \$43E | \$48E |
| Q4 Dec | \$29A | \$35A | \$40E | \$44E |
| Total | \$113A | \$148A | \$168E | \$188E |
| EV/Revs | 3.5x | 2.7x | 2.4x | 2.1x |

Earnings per Share (pro forma)

| | 2010A | 2011A | 2012E | 2013E |
|--------|---------|---------|---------|---------|
| Q1 Mar | \$0.15A | \$0.37A | \$0.42E | \$0.51E |
| Q2 Jun | \$0.20A | \$0.30A | \$0.43E | \$0.48E |
| Q3 Sep | \$0.22A | \$0.36A | \$0.41E | \$0.46E |
| Q4 Dec | \$0.23A | \$0.40A | \$0.34E | \$0.35E |
| Total | \$0.80A | \$1.42A | \$1.60E | \$1.80E |
| P/E | 34x | 19x | 17x | 15x |

EBITDAS* (US\$ million)

| | 2010A | 2011A | 2012E | 2013E |
|------------|-------|-------|-------|-------|
| Q1 Mar | \$6A | \$11A | \$11E | \$13E |
| Q2 Jun | \$7A | \$9A | \$11E | \$13E |
| Q3 Sep | \$7A | \$10A | \$11E | \$12E |
| Q4 Dec | \$8A | \$9A | \$9E | \$10E |
| Total | \$27A | \$38A | \$42E | \$48E |
| EV/EBITDAS | 14.9x | 10.6x | 9.5x | 8.4x |

*EBITDAS defined as earnings before interest, taxes, depreciation, amortization and stock-based compensation.

Important Disclosures

Ascendant Capital Markets LLC seeks to do business with companies covered by its research team. Consequently, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making an investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report, beginning on page 26.

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Exhibit 1: Travelzoo Stock Price (Five-Years)



Source: Nasdaq.com

INVESTMENT THESIS

We are initiating coverage of Travelzoo with a BUY rating and a 12-month price target of \$34.

Travelzoo has carved a sizeable niche within the large travel and entertainment online advertising markets. Its entry into the fast growing daily deals email marketing business has helped fuel strong growth, with revenue and earnings growing at a high rate over the past two years. However, growth rates are slowing for Travelzoo and for the industry, and we may be near a point of maturation in the daily deals market as the initial novelty and excitement wear off. Despite concerns about competition and industry growth, we believe that Travelzoo should be able to continue to grow and maintain market share given its large and loyal subscriber base (of over 21 million). Unlike others in the daily deals space, Travelzoo is profitable and has a solid balance sheet.

Our investment thesis factors in the business' growing competition and the potentially moderating growth in the daily deals industry. Our \$34 price target is calculated by applying a forward P/E of 21x our 2012 EPS estimate of \$1.60. The 21x forward P/E multiple is below the peer group median (27x) for Internet advertising companies, which we believe appropriately balances out the risks with its solid growth prospects.

We believe the current valuation is attractive.

We looked at Travelzoo's valuation four ways, and most suggested that Travelzoo is undervalued:

- 1) EV is at 2.7x 2011A revenues and 2.4x 2012E revenues, versus a comp group median of 4.5x (2011E) and 4.0x (2012E);
- 2) EV is at 10.6x 2011A EBITDAS and 9.5x 2012E EBITDAS, versus a comp group median of 8.4x (2011E) and 10.0x (2012E);
- 3) EV per subscriber is at \$19, versus comp group average of ~\$30 - 40; and
- 4) P/E of 19x (2011A) and 17x (2012E), versus a comp group median of 24x (2011E) and 27x (2012E).

INVESTMENT HIGHLIGHTS

Strong Brand Equity

Travelzoo has over 21 million subscribers to its travel and local deals emails in the U.S. and Europe. It has size, scale, and branding, particularly with consumers who are looking for or are open to receiving travel or daily deals emails. In addition, it has key

relationships with many of the world's top travel suppliers, many of whom are repeat customers for its newsletter business and are becoming new customers for its Local Deals business. We believe Travelzoo's position as one of the largest travel advertising and local deals companies should drive continued solid growth over the near and long term.

Improving Travel Industry Bodes Well For Travel Related Companies

After two years of industry declines in 2008 and 2009 amid the Great Recession and global economic slowdown, the global travel industry grew 3% in 2010 and is expected to grow 3% in 2011 (according to World Travel & Tourism Council). The U.S. travel industry is also expected to share a similar rebound and growth pattern, with 8% growth in 2010 and an expected 8% growth in 2011 (according to U.S. Travel Association). Despite near term uncertainty with macro economic conditions (particularly in the U.S. and Europe), the long-term outlook for travel is strong both in the U.S. and worldwide. (We estimate +3–5% annual growth rate over the next 5 years.)

Benefit From Increased Online Advertising

Travelzoo should benefit from high growth rates in online advertising. With increasing Internet usage (both in time spent and users), advertising and media spending is increasingly moving online. In the U.S., the online advertising market was \$26 billion in 2010 (+15% from 2009). Online advertising is ~15% of total U.S. advertising spending, so there is still significant room for growth. As consumers have increasingly turned to the Internet to research, compare, and book travel, so have advertisers who want to reach them. It is estimated that travel companies spent \$2.8 billion in travel advertisement in the U.S. in 2010 (Kantar Media, 2011), indicating potential market opportunities for Travelzoo.

Large Opportunities in Daily Deals Emails Industry

From its beginning in 2008 (with Groupon as the pioneer), daily deals has become one of the fastest growing industries (going from zero in 2008 to an estimated \$5 billion worldwide in 2011). Local businesses have flocked to daily deals vendors looking for new or additional customers, while consumers have flocked to daily deals looking for discounts to new or favorite businesses. We believe that Travelzoo is one of the larger players in this space, with a 5% market share in the U.S.

Travel and Daily Deals Businesses Likely To Benefit From Weak Macro Conditions

Near-term uncertainty with macro economic conditions (particularly in the U.S. and Europe), may drive continued popularity of daily deals websites. The weak economy and high unemployment in the U.S. have forced consumers and merchants to manage their spending carefully. By focusing on deals and discounts, consumers can purchase items from Travelzoo at a lower price than they could otherwise. Merchants are always looking for ways to bring in more customers, and they like daily deals marketing because of its variable cost feature. (They only pay when a customer buys a deal.) Due to the perishable nature of travel products, travel companies have strong incentives to sell their products including through the usage of advertising like those provided by Travelzoo.

Solid Growth and Balance Sheet

Travelzoo has had a solid past two years of revenue and earnings growth (from 2009 revenue of \$95 million and EPS of \$0.08 to 2011 revenue of \$148 million and EPS of \$1.42). Unlike other companies in the daily deals industry (such as Groupon), Travelzoo has been able to grow profitably because it did not have to invest significantly for customer acquisitions as it had already built up a large subscriber base. Travelzoo has a solid balance sheet with \$39 million in cash (~\$2.43/share) and no debt.

Strong Growth Prospects in Europe

Travelzoo generates approximately 75% of its revenue from North America, and 25% from Europe, and has 15.7 million subscribers in North America and 5.8 million subscribers in Europe. As the travel market and population in Europe is similar to North America, we believe that Travelzoo should be able to replicate its North American success and grow its European business. As its European subscriber base grows, its profitability there should improve. (We note that it has been increasing profitability in Europe for the past six quarters.)

Small Size and Focused Growth Should Allow for Growth Despite Competition

We believe Travelzoo's small market share (5% or less), and overall strong growth prospects for online travel and daily deals advertising should temper concerns about competition (particularly Google and Groupon). Recently, Google has been increasing its travel-related services, including Google Hotel Finder and Google Flights, and has also launched Google Offers to compete in the daily deals market. Groupon is the largest daily deals company with estimated 2011 revenue of \$1.6 billion, and also competes for travel advertising with its Groupon Getaways (travel deals in partnership with Expedia). We believe Travelzoo can compete against its much larger peers by focusing on its core strengths and high quality deals.

INVESTMENT CONCERNS**Industry Growth is Slowing**

While the daily deals market has grown quickly to become a \$3 billion a year industry in the U.S. (\$5 billion worldwide), we believe that growth rates are likely to slow as consumer fatigue sets in or the market reaches saturation with consumers and merchants. Recent data from daily deals aggregator Yipit show that the U.S. daily deals business has grown slowly over the past two months (less than 2% per month sequentially from September to November). Our channel checks show flat industry sales in the U.S. in Q4 after growing on a monthly sequential basis of +10% for most of 2011.

Increased Competition Likely to Impact Business

Travelzoo competes with online advertising companies such as Google, Yahoo!, Microsoft/Bing and AOL, along with traditional media companies such as newspapers, television, and radio for advertising revenue. The biggest challenge is against other online companies with larger client bases, greater resources, and access to proprietary search engines, which could result in higher traffic acquisitions costs, reduced margins, and reduced advertisers, subscribers, and customer traffic for Travelzoo.

For daily deals, Travelzoo's competition is high as it competes with other group buying websites (notably Groupon), small and large Internet companies, and traditional offline coupon or advertising businesses. The rapid growth by Groupon and daily deals has attracted many competitors. While there are hundreds of small startups competing in this space, we believe many are not likely to present a big challenge to Travelzoo. We view large Internet companies, those with large customer lists and emails, such as Amazon.com, Google, and Microsoft, as the biggest potential competitors to Travelzoo. Already, these three companies have their own Groupon-like offerings with AmazonLocal, Google Offers, and Bing Deals to directly compete with Travelzoo. Competition in daily deals may lead to fewer deals offered, fewer deals sold, reduced commissions, and higher selling costs.

Potential Cannibalization of Core Newsletter Revenue

Travelzoo's core product (approximately 60% of revenues) is its Travelzoo Top 20 weekly newsletter that advertises top travel deals. This newsletter consists primarily of paid advertisements from travel suppliers to be on this list. With the recent rise of daily deals for travel (both from Travelzoo and other daily deals companies), there is the risk that travel suppliers will switch usage from the newsletter (which are primarily fixed fee) into travel daily deals (primarily variable fee) with Travelzoo or with another company.

Threat From Google

Online search engines, predominantly Google since it is the world's largest, are becoming major players in the online travel industry. Although Google (along with the other major search engines), are currently not selling travel products directly, they do influence consumers' selection of where to purchase travel through their search and advertisement listings. Google directly and indirectly competes for the same advertising revenue as Travelzoo. With Google's increased travel and daily deals offerings, it may present the biggest challenge to Travelzoo's business.

Customer Attrition and Fatigue






Although joining Travelzoo's email list is free, we believe that consumers may become "deal fatigued" from reading too many emails from Travelzoo or its competitors and this may cause them to quit or ignore future emails. Travelzoo has built up brand awareness as one of the leaders in this space, but we believe that due to lack of exclusivity of travel suppliers and merchants, consumers will care less about branding and more about which company offers the best deal at the ideal time. While subscriber acquisition costs (SAC) have been steady, they may rise as newsletter subscribers reaches saturation in the U.S.

Challenge to Brand Equity

While Travelzoo may have been one of the few travel and daily deals emails a consumer was receiving before, it is now common for the average consumer to get similar deals from a multitude of companies every day. In addition, daily deals aggregators such as Yahoo, Microsoft, Yipit, and others may further erode Travelzoo's brand equity. Unlike popular social media companies like Facebook, Twitter, and LinkedIn, switching costs are low, depriving daily deals companies from the benefits of any network effects.

Exhibit 2: Daily Deals Aggregators

| Aggregator | Count |
|------------------------------|-------|
| Amazon Local [Only] | 6 |
| CB & Local [Only] | 5 |
| CrowdCrave [Only] | 3 |
| Daily Candy [Only] | 7 |
| DailyDealTime [Only] | 3 |
| DealFind [Only] | 4 |
| Entertainment.com [Only] | 2 |
| familyFinds [Only] | 2 |
| Gilt City [Only] | 16 |
| Google Offers [Only] | 6 |
| Groupon [Only] | 34 |
| Juice in the City [Only] | 1 |
| kgb deals [Only] | 24 |
| Lifebooker [Only] | 14 |
| Living Social [Only] | 18 |
| Los Angeles Times [Only] | 9 |
| Munch On Me [Only] | 4 |
| Night Tap [Only] | 1 |
| PhunDeals [Only] | 2 |
| Plum District [Only] | 2 |
| savertime [Only] | 3 |
| Scoutmob [Only] | 1 |
| Signpost [Only] | 2 |
| SpaRahRah! [Only] | 1 |
| Spreebird [Only] | 5 |
| Thrillist Rewards [Only] | 4 |
| Tippr [Only] | 3 |
| Travelzoo Local Deals [Only] | 6 |
| Urban Daddy Perks [Only] | 1 |
| VOICE Daily Deals [Only] | 2 |
| Wedding Channel Deals [Only] | 1 |
| WinWinLivin [Only] | 1 |
| | 5 |

|  <p>Vitelio's Italian Restaurant 4349 Tujunga Ave - Los Angeles Restaurants Found: Thursday From: kgb deals Share: f t e</p> | <table border="1"> <thead> <tr> <th>WORTH</th> <th>DISCOUNT</th> <th>SAVINGS</th> </tr> </thead> <tbody> <tr> <td>\$25</td> <td>60%</td> <td>\$15</td> </tr> <tr> <td colspan="3">4d 2h 27m</td> </tr> <tr> <td colspan="3">79 purchased</td> </tr> </tbody> </table> | WORTH | DISCOUNT | SAVINGS | \$25 | 60% | \$15 | 4d 2h 27m | | | 79 purchased | | |
|---|---|---------|----------|---------|------|-----|------|------------|--|--|---------------|--|--|
| WORTH | DISCOUNT | SAVINGS | | | | | | | | | | | |
| \$25 | 60% | \$15 | | | | | | | | | | | |
| 4d 2h 27m | | | | | | | | | | | | | |
| 79 purchased | | | | | | | | | | | | | |
|  <p>Food and Drink Steingarten LA 10543 W Pico Blvd - Los Angeles Restaurants Found: Thursday From: VOICE Daily Deals Share: f t e</p> | <table border="1"> <thead> <tr> <th>WORTH</th> <th>DISCOUNT</th> <th>SAVINGS</th> </tr> </thead> <tbody> <tr> <td>\$20</td> <td>50%</td> <td>\$10</td> </tr> <tr> <td colspan="3">2d 18h 27m</td> </tr> <tr> <td colspan="3">115 purchased</td> </tr> </tbody> </table> | WORTH | DISCOUNT | SAVINGS | \$20 | 50% | \$10 | 2d 18h 27m | | | 115 purchased | | |
| WORTH | DISCOUNT | SAVINGS | | | | | | | | | | | |
| \$20 | 50% | \$10 | | | | | | | | | | | |
| 2d 18h 27m | | | | | | | | | | | | | |
| 115 purchased | | | | | | | | | | | | | |
|  <p>Restaurant Tours The City Tour Restaurants City Tours Found: Thursday From: Tippr Share: f t e</p> | <table border="1"> <thead> <tr> <th>WORTH</th> <th>DISCOUNT</th> <th>SAVINGS</th> </tr> </thead> <tbody> <tr> <td>\$59</td> <td>50%</td> <td>\$30</td> </tr> <tr> <td colspan="3">2d 5h 27m</td> </tr> <tr> <td colspan="3">28 purchased</td> </tr> </tbody> </table> | WORTH | DISCOUNT | SAVINGS | \$59 | 50% | \$30 | 2d 5h 27m | | | 28 purchased | | |
| WORTH | DISCOUNT | SAVINGS | | | | | | | | | | | |
| \$59 | 50% | \$30 | | | | | | | | | | | |
| 2d 5h 27m | | | | | | | | | | | | | |
| 28 purchased | | | | | | | | | | | | | |
|  <p>Half Off at Sushiya Japanese Restaurant and Bar in Riverside Sushiya Japanese Restaurant and Bar 1201 University Ave - Riverside Restaurants Found: Thursday From: Groupon Share: f t e</p> | <table border="1"> <thead> <tr> <th>WORTH</th> <th>DISCOUNT</th> <th>SAVINGS</th> </tr> </thead> <tbody> <tr> <td>\$40</td> <td>50%</td> <td>\$20</td> </tr> <tr> <td colspan="3">5h 27m</td> </tr> <tr> <td colspan="3">460 purchased</td> </tr> </tbody> </table> | WORTH | DISCOUNT | SAVINGS | \$40 | 50% | \$20 | 5h 27m | | | 460 purchased | | |
| WORTH | DISCOUNT | SAVINGS | | | | | | | | | | | |
| \$40 | 50% | \$20 | | | | | | | | | | | |
| 5h 27m | | | | | | | | | | | | | |
| 460 purchased | | | | | | | | | | | | | |
|  <p>Kabobs and more Original Kabob Factory 1700 W Glenoaks Blvd - Glendale Restaurants Found: Wednesday From: Google Offers Share: f t e</p> | <table border="1"> <thead> <tr> <th>WORTH</th> <th>DISCOUNT</th> <th>SAVINGS</th> </tr> </thead> <tbody> <tr> <td>\$20</td> <td>50%</td> <td>\$10</td> </tr> <tr> <td colspan="3">1d 10h 27m</td> </tr> </tbody> </table> | WORTH | DISCOUNT | SAVINGS | \$20 | 50% | \$10 | 1d 10h 27m | | | | | |
| WORTH | DISCOUNT | SAVINGS | | | | | | | | | | | |
| \$20 | 50% | \$10 | | | | | | | | | | | |
| 1d 10h 27m | | | | | | | | | | | | | |

Source: Yipit

Non Exclusive Relationship with Travel Suppliers and Merchants

Travelzoo's business depends on its relationship with travel suppliers and merchants who are willing to offer products or services at a deep discount to its subscribers. Agreements with merchants are short-term in nature, so the availability of attractive deals is subject to fluctuations and seasonality. Almost all deals offered are non-exclusive, so a merchant may offer the same deal to various companies which may dilute Travelzoo's brand and value. Merchants view Travelzoo's services as advertising, and if they do not find the marketing services to be effective, they will likely no longer use them.

No Significant Technology Barriers to Entry

Travelzoo's main businesses are its travel deals newsletter and its daily deals emails. Subscribers sign up to Travelzoo with an email address, which is then used by the company to send them emails featuring current deals. The basic technology involved to send emails and organize deals sales is not complicated. Other than compiling an email list, there are no significant technological barriers to entry.

Uncertainties with Legislative Risk and the CARD Act

Laws and regulations, such as the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act), to Local Deals vouchers are uncertain. Vouchers may be categorized as gift cards, stored value cards, or prepaid cards, which would require them to be governed by the CARD Act, requiring disclosures, limitations of expiration dates, and restrictions on certain fees. This would likely reduce breakage income and profitability, and impose additional costs and restrictions for Travelzoo.

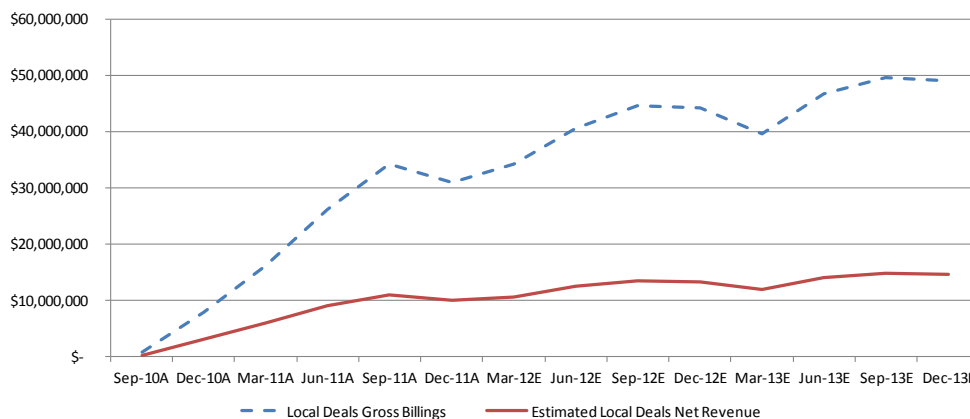
Concentrated Ownership

Ralph Bartel, a director and founder of Travelzoo, owns ~52% of Travelzoo shares. Thus, Mr. Bartel has control of the company and it would be difficult for other shareholders to make major business decisions for Travelzoo.

Q4 Report Showed Decline in Local Deals

Despite expected solid long term growth prospects, we estimate that Local Deals revenue for Travelzoo's Q4 (December) were down to \$10 million (~30% of total revenues) from \$11 million in Q3. We believe that this may spook investors near term, but growth should return in Q1 (its seasonally stronger quarter) and 2012 as its sales staff matures.

Exhibit 3: Local Deals Revenue

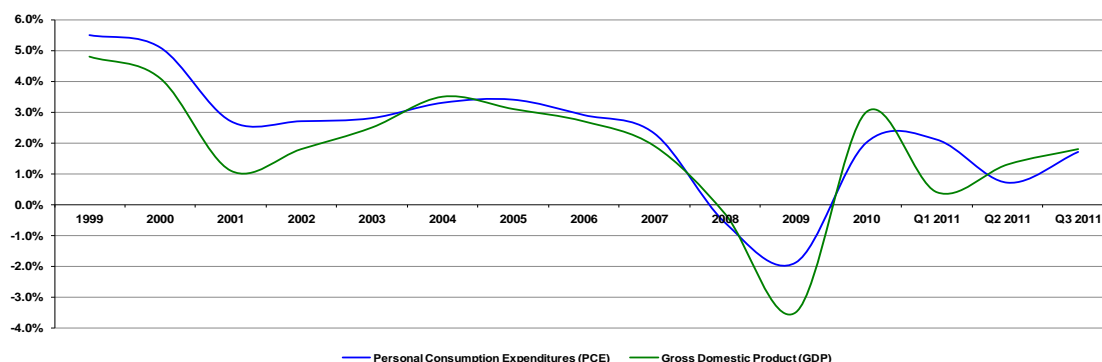


Source: Company report and Ascendant Capital Markets estimates

Economic Uncertainty

Consumer spending is highly correlated with economic activity and discretionary income levels. Deterioration in economic conditions tends to result in an overall decline in consumer spending, as was demonstrated during the 2008 and 2009 Great Recession and global economic slowdown. While consumer spending levels have improved relatively in 2010 and 2011, the global macroeconomic environment remains fragile (particularly in Europe). Further economic weakness may result in depressed consumer spending levels, which may have a negative impact on Travelzoo's business.

Exhibit 4: U.S. Consumer Spending and U.S. Economic Growth (GDP)

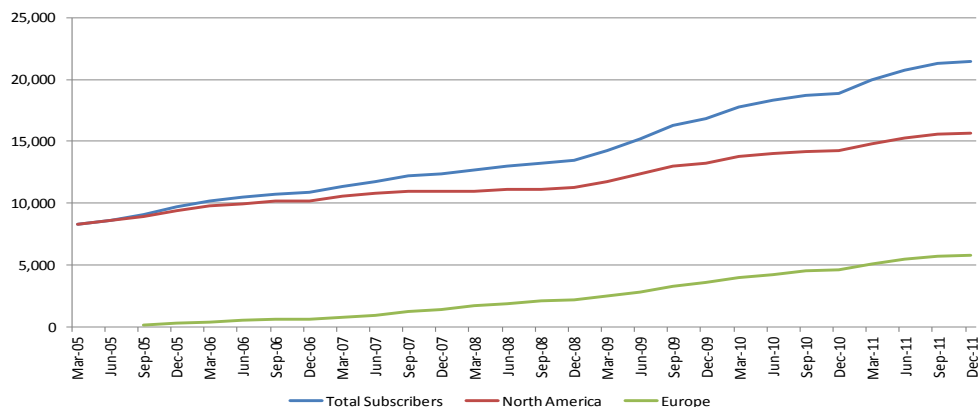


Source: U.S. Bureau of Economic Analysis

ANALYSIS OF THE BUSINESS MODEL

Travelzoo generates revenues primarily from advertising sales and Local Deals commissions, which tend to correlate with the size of Travelzoo's subscriber base. Over time, Travelzoo has steadily increased its subscriber base to over 21 million, which we believe is still a small percentage of the overall addressable market for Internet users in the U.S. and Europe (500 million).

Exhibit 5: Travelzoo's Subscriber Base (in thousands)



Source: Company reports

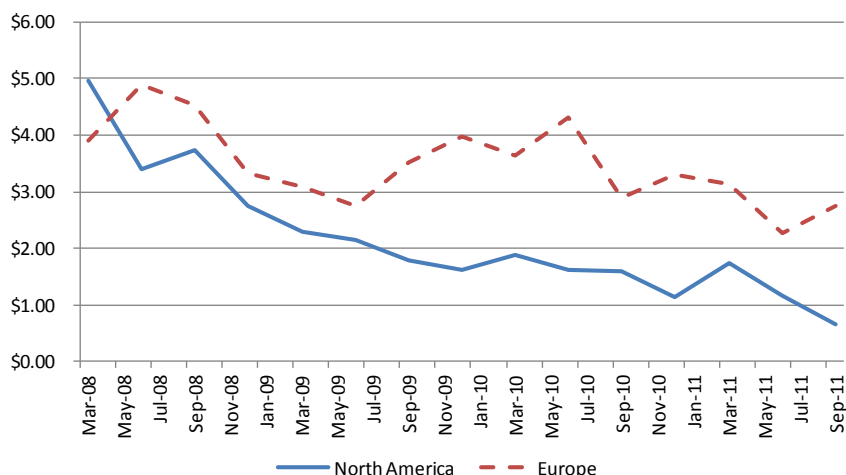
Exhibit 6: Revenue Per Subscriber (millions)

| | 2005A | 2006A | 2007A | 2008A | 2009A | 2010A | 2011A | 2012E | 2013E |
|-------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenues | \$ 51 | \$ 70 | \$ 79 | \$ 81 | \$ 95 | \$ 113 | \$ 148 | \$ 168 | \$ 188 |
| Subscribers | 9.7 | 10.9 | 12.6 | 14.6 | 16.8 | 18.9 | 21.5 | 23.2 | 26.3 |
| Revenues / Subscribers | \$ 5.25 | \$ 6.40 | \$ 6.26 | \$ 5.58 | \$ 5.65 | \$ 5.97 | \$ 6.88 | \$ 7.24 | \$ 7.12 |

Source: Company reports and Ascendant Capital Markets estimates

We believe that over time, Travelzoo's revenue growth opportunities are in increasing its subscriber base along with increasing revenue per subscribers. For conservatism, we have modeled flat revenues per subscribers for the next two years. We have modeled subscriber growth to 26 million in 2013 from 21 million currently. We believe this is likely as the company continues to invest in subscriber acquisition costs (SAC). As the company generates operating leverage, its SAC has been decreasing over time.

Exhibit 7: Subscriber Acquisition Costs (SAC)



Source: Company reports

VALUATION

We are initiating coverage of Travelzoo with a BUY rating, and a 12-month price target of \$34, which reflects a target P/E multiple of 21x our 2012 EPS estimate of \$1.60. The 21x forward P/E multiple is below the peer group median for Internet advertising companies (27x), which we believe is reasonable and balances out its growth prospects and competitive risks with current valuation for its peers. We compare Travelzoo to a peer group of publicly traded Internet companies, and believe that online advertising companies are the most comparable, but note that multiples vary significantly between Internet companies.

Trying to value Travelzoo can be difficult because of its recent rapid revenue growth, which was followed quickly by moderating growth. The company's entry into daily deals (in 2010) have propelled, and then pummeled the stock in 2011 as valuations in this

industry have fluctuated widely. We expect valuations for Travelzoo to stabilize as the industry and Local Deals mature, and visibility into growth and profits become clearer. Our target P/E multiple of 21x reflects a ~20% discount to the peer group multiple of 27x, which we believe is reasonably conservative to reflect competitive concerns.

On an EV/Revenue basis, Travelzoo is trading well below its peers (at 2.4x 2012E revenue), including Internet advertising leader Google (4.3x) and daily deals leader Groupon (5.0x). On an EV/EBITDAS (operating income plus depreciation, amortization, and stock compensation) basis, Travelzoo is trading near its peers (at 9.5x 2012E EBITDAS compared with the median of 10.0x).

Exhibit 8: Comparable Companies

In millions (unless otherwise noted), excluding per share data

| In millions (unless otherwise noted), excluding per share data | | | | | | | | | | | | | | | | | | | | | | | |
|--|--------|-----|-----------|--------------|-------------------|----------|----------|------------------------|----------------|------------|-----------------------|------------------|--------|-------------|--------|----------|-------|--------------------|--------|---------|---------|------------------------|-------|
| | Ticker | FYE | Rating | Price Target | Price as of close | | | 52 Week Range Low High | Diluted Shares | Market Cap | Enterprise Value (EV) | Earnings / Share | | Price / EPS | | Revenues | | Ent.Val (EV) / Rev | | EBITDAS | | Ent.Val (EV) / EBITDAS | |
| | | | | | 1/26/12 | Low | High | | | | | 2011E | 2012E | 2011E | 2012E | 2011E | 2012E | 2011E | 2012E | 2011E | 2012E | 2011E | 2012E |
| Travelzoo* | TZOO | Dec | Buy | \$34 | \$27.52 | \$20.68 | \$103.80 | 16 | 440 | 401 | \$1.42 | \$1.60 | 19.4x | 17.2x | 148 | 168 | 2.7x | 2.4x | 38 | 42 | 10.6x | 9.5x | |
| Online Travel related | | | | | | | | | | | | | | | | | | | | | | | |
| Expedia | EXPE | Dec | Not Rated | N/A | \$31.11 | \$27.28 | \$65.78 | 140 | 4,340 | 3,940 | \$2.74 | \$2.91 | 11.4x | 10.7x | 3,446 | 3,782 | 1.1x | 1.0x | 681 | 708 | 5.8x | 5.6x | |
| Orbitz Worldwide | OWW | Dec | Not Rated | N/A | \$3.68 | \$1.57 | \$6.50 | 106 | 390 | 720 | \$0.11 | \$0.18 | 33.5x | 20.4x | 764 | 806 | 0.9x | 0.9x | 120 | 132 | 6.0x | 5.5x | |
| Priceline.com | PCLN | Dec | Not Rated | N/A | \$524.66 | \$411.26 | \$561.88 | 52 | 27,282 | 26,482 | \$23.14 | \$29.80 | 22.7x | 17.6x | 4,331 | 5,396 | 5.9x | 4.7x | 1,485 | 1,907 | 17.2x | 13.4x | |
| Tripadvisor | TRIP | Dec | Not Rated | N/A | \$31.05 | \$23.99 | \$32.33 | 140 | 4,331 | 4,331 | \$1.38 | \$1.41 | 22.5x | 22.0x | 629 | 759 | 6.9x | 5.7x | 320 | 339 | 13.5x | 12.8x | |
| Online Commerce related | | | | | | | | | | | | | | | | | | | | | | | |
| Amazon.com | AMZN | Dec | Not Rated | N/A | \$193.32 | \$160.59 | \$246.71 | 455 | 87,961 | 81,631 | \$1.18 | \$1.88 | 163.8x | 102.8x | 48,847 | 65,313 | 1.7x | 1.2x | 1,893 | 2,684 | 43.1x | 30.4x | |
| eBay* | EBAY | Dec | Not Rated | N/A | \$31.71 | \$26.86 | \$35.35 | 1,308 | 41,491 | 37,651 | \$2.03 | \$2.30 | 15.6x | 13.8x | 11,652 | 13,826 | 3.2x | 2.7x | 3,846 | 4,475 | 9.8x | 8.4x | |
| Online Advertising related | | | | | | | | | | | | | | | | | | | | | | | |
| AOL | AOL | Dec | Not Rated | N/A | \$15.72 | \$10.06 | \$24.91 | 97 | 1,525 | 1,193 | \$0.05 | \$0.37 | 314.4x | 42.5x | 2,194 | 2,097 | 0.5x | 0.6x | 362 | 310 | 3.3x | 3.8x | |
| Demand Media | DMD | Dec | Not Rated | N/A | \$7.00 | \$5.24 | \$27.38 | 84 | 588 | 509 | \$0.24 | \$0.32 | 29.2x | 21.9x | 313 | 367 | 1.6x | 1.4x | 85 | 110 | 6.0x | 4.6x | |
| Google* | GOOG | Dec | Not Rated | N/A | \$568.10 | \$473.02 | \$670.25 | 326 | 184,937 | 153,437 | \$36.04 | \$42.34 | 15.8x | 13.4x | 29,095 | 35,661 | 5.3x | 4.3x | 16,067 | 19,109 | 9.5x | 8.0x | |
| Groupon | GRPN | Dec | Sell | \$14 | \$19.53 | \$14.85 | \$31.14 | 650 | 12,695 | 11,695 | \$0.78 | \$0.20 | 25.0x | 97.7x | 1,600 | 2,350 | 7.3x | 5.0x | (93) | 272 | -125.7x | 43.0x | |
| IAC/InteractiveCorp. | IACI | Dec | Not Rated | N/A | \$41.48 | \$28.05 | \$43.89 | 82 | 3,401 | 2,631 | \$2.12 | \$2.60 | 19.6x | 16.0x | 2,029 | 2,410 | 1.3x | 1.1x | 365 | 448 | 7.2x | 5.9x | |
| LinkedIn | LNKD | Dec | Not Rated | N/A | \$72.39 | \$55.98 | \$122.70 | 98 | 7,094 | 6,706 | \$0.31 | \$0.57 | 233.5x | 127.0x | 514 | 824 | 13.0x | 8.1x | 85 | 149 | 78.9x | 45.0x | |
| OpenTable | OPEN | Dec | Not Rated | N/A | \$47.88 | \$31.54 | \$118.66 | 24 | 1,149 | 1,069 | \$1.20 | \$1.48 | 39.9x | 32.4x | 139 | 169 | 7.7x | 6.3x | 54 | 71 | 19.8x | 15.1x | |
| Yahoo* | YHOO | Dec | Not Rated | N/A | \$15.53 | \$11.09 | \$18.84 | 1,241 | 19,273 | 16,744 | \$0.82 | \$0.93 | 18.9x | 16.7x | 4,381 | 4,445 | 3.8x | 3.8x | 1,449 | 1,398 | 11.6x | 12.0x | |
| Online Advertising related | | | | | | | | | | | | 24.4x | | 27.1x | | 4.5x | | 4.0x | | 8.4x | | | |
| Median | | | | | | | | | | | | 80.8x | | 45.9x | | 5.1x | | 3.8x | | 1.3x | | | |
| Average | | | | | | | | | | | | | | | | | | | | | | | |

Note: For companies not under coverage, First Call estimates are used *TZOO EBAY GOOG YHOO 2011 are Actuals

Source: Company reports, Thomson Reuters, and Ascendant Capital Markets estimates

Exhibit 9: Comparable Subscriber Valuation (as of Jan. 26, 2012) (in millions)

| Company | Enterprise Value (EV) | Subscribers | EV / Subs |
|---------------------------|-----------------------|-------------|--------------|
| Travelzoo | \$ 401 | 21 | \$ 19 |
| Free Subscriptions | | | |
| Dropbox* | \$ 4,000 | 45 | \$ 89 |
| Facebook* | \$ 80,000 | 800 | \$ 100 |
| Groupon | \$ 11,695 | 143 | \$ 82 |
| LinkedIn | \$ 6,706 | 135 | \$ 50 |
| Pandora Media | \$ 2,140 | 100 | \$ 21 |
| Twitter* | \$ 8,000 | 250 | \$ 32 |
| Zynga | \$ 5,430 | 227 | \$ 24 |
| | | | \$ 57 |
| Paid Subscriptions | | | |
| DIRECTTV | \$ 42,530 | 31 | \$ 1,376 |
| DISH Network | \$ 17,920 | 14 | \$ 1,285 |
| Hulu* | \$ 1,500 | 1.5 | \$ 1,000 |
| Netflix | \$ 5,130 | 24 | \$ 216 |
| Sirius XM Radio | \$ 10,300 | 22 | \$ 470 |
| Time Warner Cable | \$ 43,220 | 14 | \$ 2,992 |

*Private company valuations estimated by Ascendant Capital Markets

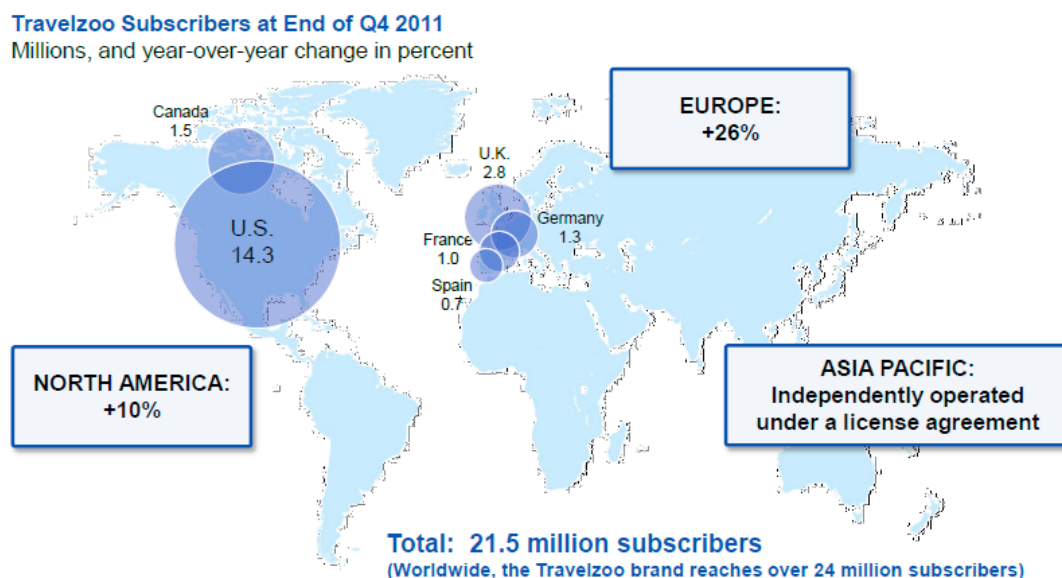
Source: Company reports and Ascendant Capital Markets estimates

Taking a look at value per subscribers, Travelzoo's valuation implies an Enterprise Value (EV) per subscriber of \$19. This is below the average of most other free internet subscription services (of ~\$30/subs), and is well below the valuation for Groupon (\$82/sub). We believe that this shows that current valuations for Travelzoo are modest, with the likely potential for upside as valuation increases.

COMPANY HIGHLIGHTS

Based in New York, Travelzoo offers travel, entertainment, and local deals advertising and content. Travelzoo's publications and products include its websites, the Travelzoo Top 20 e-mail newsletter, the Newsflash e-mail alert, SuperSearch (a pay-per-click travel search tool), the Travelzoo Network (third-party websites that list deals published by Travelzoo), and Fly.com (an airfare meta search engine to find the best prices on flights from hundreds of airlines and online travel agencies). In August 2010, Travelzoo launched Local Deals, a group buying program for its subscribers to purchase vouchers for deals from local businesses such as spas and restaurants at significant discounts. Travelzoo has over 21 million subscribers (24 million including its independent affiliate in Asia). In 2011, Travelzoo's revenue was 73% from North America and 27% from Europe. As of December 2011, Travelzoo employed ~350 employees (223 in North America and 127 in Europe).

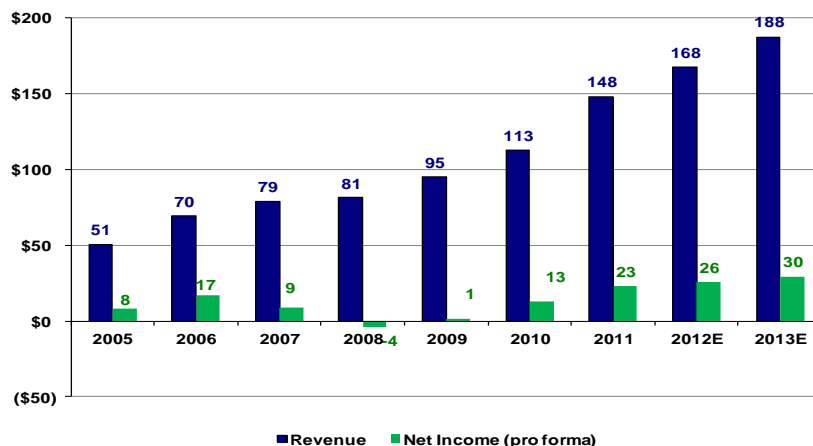
Exhibit 10: Travelzoo's Reach



Source: Company reports

Travelzoo was founded by Ralph Bartel in 1998. Through a series of mergers with other companies owned by Mr. Bartel, the present day Travelzoo was formed in 2002. In October 2009, Travelzoo completed the sale of its Asia Pacific business (Travelzoo (Asia) Limited and Travelzoo Japan K.K.) to Azzurro Capital Inc. (a company owned by Ralph Bartel) for \$3.6 million. The Asia business is now a separate independent company.

Exhibit 11: Travelzoo's Revenue and Net Income (\$ millions)



Source: Company reports and Ascendant Capital Markets estimates

Travelzoo offers advertising to travel agencies, airlines, cruise lines, hotels, car rental agencies, and other travel suppliers through its Top 20 online newsletter. Travelzoo is not an online travel agent (OTA) company.

Exhibit 12: Travelzoo's Products

| Product | Content | Publication Schedule | Reach/Usage* | Advertiser Benefits | Consumer Benefits |
|---------------------------|---|---|--|---|---|
| <i>Travelzoo websites</i> | Websites in the U.S., Canada, France, Germany, Spain, and the U.K. listing thousands of outstanding sales and specials from more than 2,000 travel, entertainment and local companies | 24/7 | 10.4 million unique visitors per month | Broad reach, sustained exposure, targeted placements by destination and travel segment | 24/7 access to deals, ability to search and browse by destination or keyword |
| <i>Travelzoo Top 20</i> | Popular e-mail newsletter listing 20 of the week's most outstanding deals | Weekly | 18.1 million subscribers | Mass "push" advertising vehicle to quickly stimulate incremental travel and entertainment purchases | Weekly access to 20 outstanding, handpicked deals chosen from among thousands |
| <i>Newzflash</i> | Regionally-targeted e-mail alert service with a single time-sensitive and newsworthy travel and entertainment offer | Within two hours of an offer being identified | 16.5 million subscribers | Regional targeting, 100% share of voice for advertiser, flexible publication schedule | Breaking news offers delivered just-in-time |
| <i>Local Deals</i> | Locally-targeted e-mail alert service with a single time-sensitive and newsworthy offer from local merchants such as spas and restaurants | Twice per week in active markets | Over 35 markets | Local targeting by zip code, 100% share of voice for the local business, flexible publication schedule | Breaking news offers delivered just-in-time |
| <i>Travelzoo Network</i> | A network of third-party websites that list outstanding deals published by Travelzoo | 24/7 | Over 325 third-party websites | Drives qualified users with substantial distribution beyond the Travelzoo audience | Contextually relevant travel deals that have been handpicked and professionally reviewed |
| <i>Super Search</i> | Travel search tool using a proprietary algorithm to recommend sites and enable one-click searching | On-demand | 5.4 million monthly searches | Drives qualified traffic directly to advertiser site on a pay-per-click basis | Saves time and money by recommending the sites most likely to have great rates for a specific itinerary |
| <i>Fly.com</i> | Travel search engine that enables users to find and compare the best flight options from multiple sources | On-demand | 2.8 million monthly searches | Provides advertisers a low cost distribution channel and retention of the user engagement on the advertiser's website | Free access to real-time price comparisons from airlines and online travel agencies |

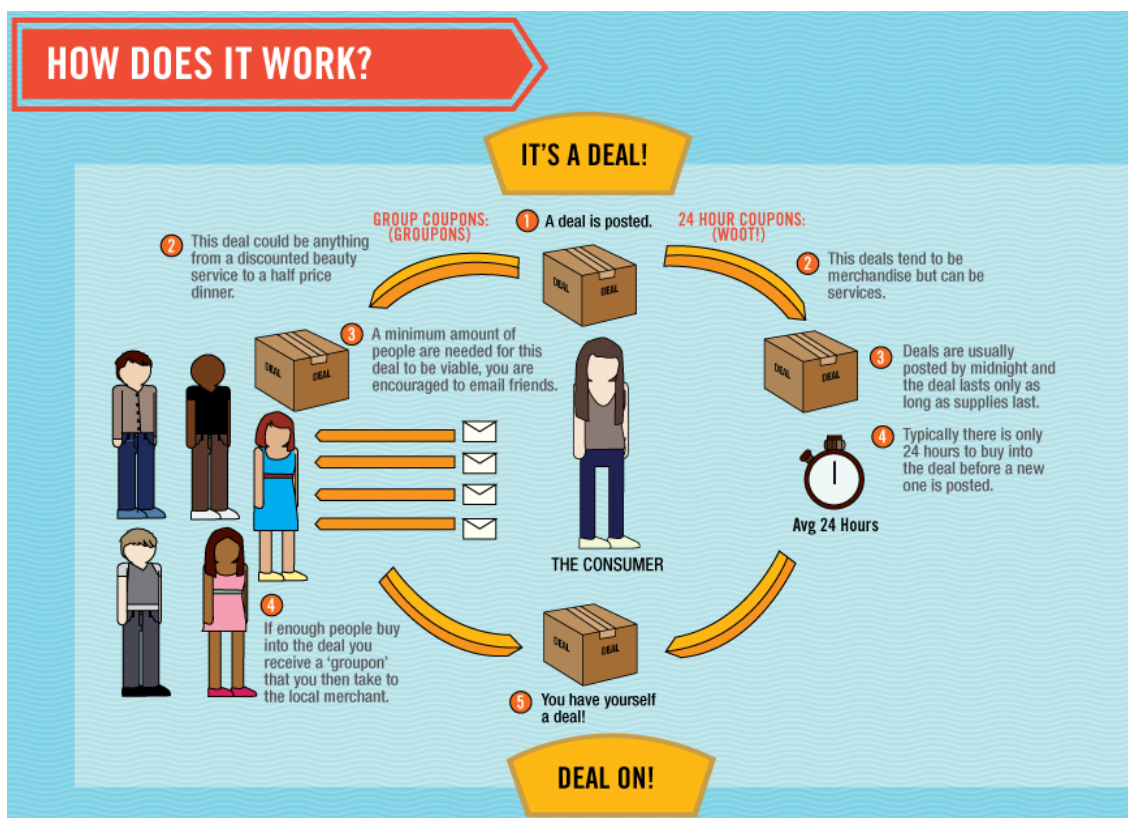
Source: Company reports

Although relatively new (launched in August 2010), Travelzoo's Local Deals business selling discounted goods and services from local merchants is quickly growing to be a large part of its business. A typical deal may offer a \$25 voucher that can be redeemed for \$50 in value at a restaurant (a 50% savings). Deals are emailed to its subscribers and posted on its website, and are available

while supplies last or the deal expires (typically in one week). Deals are only valid if a minimum number of people participate. Travelzoo generates revenue from a fixed percentage of the value of the voucher sold (which ranges from 25-50%, and was an estimated 32% in Q4:11). In Q4:11, we estimated Local Deals had gross billings of \$31 million, which we estimate translated to net revenues of \$10 million (32% of total revenues).

Travelzoo offers a value proposition for both merchants and subscribers. For local merchants, they view Travelzoo as a low-risk form of advertising because costs are incurred only when a sale occurs but the businesses get exposure to Travelzoo's much wider subscriber base. It is a way to promote volume discounts or to drive revenue during low business periods, and as more people commit to buying a product or service, the more likely it is for a merchant to make money even at the discounted prices. For consumers, Travelzoo offers deeper discounts and at a more convenient method than compared to other channels. In addition, Travelzoo's subscriber base is considered more affluent (due to ability and desire to travel) than the general Internet population or other daily deals companies, which is more attractive to merchants who hope to drive repeat customers.

Exhibit 13: Local Deals Business Model



Source: SiteJabber

MANAGEMENT TEAM

Holger Bartel, Ph.D., Chairman of the Board, age 44. Mr. Bartel has been Chairman since July 2010 after serving as a Director from June 2005 to June 2010, CEO from October 2008 to June 2010, and Executive Vice President from September 1999 to November

2007. From 1995 to 1998, Mr. Bartel worked at McKinsey & Company. Mr. Bartel holds a Ph.D. in Economics and an MBA in Finance and Accounting from the University of St. Gallen, Switzerland. He is the brother of Ralph Bartel.

Christopher Loughlin, Chief Executive Officer, age 38. Mr. Loughlin has been CEO since July 2010, after serving as Executive Vice President, Europe since May 2005. From 2001 to April 2005, Mr. Loughlin served as Vice President of Business Development. From 1999 to 2001, he was Chief Operating Officer of Weekends.com. Mr. Loughlin holds a BSc(Hons) in Technology Management from Staffordshire University and a MBA from Columbia University.

Glen Ceremony, Chief Financial Officer, age 44. Mr. Ceremony has been CFO since June 2011. From October 2004 to June 2011, Mr. Ceremony worked at Ebay, most recently as Corporate Controller. In 2004, Mr. Ceremony worked at Electronic Arts. From 1998 to 2004, Mr. Ceremony worked at PWC LLP, and from 1990 to 1998, at Coopers & Lybrand LLP. Mr. Ceremony received his B.S. in Business Administration from California State University, Sacramento.

Exhibit 14: Travelzoo Management Team



Holger Bartel, Chris Loughlin, Glen Ceremony

Source: Company reports

INDUSTRY HIGHLIGHTS

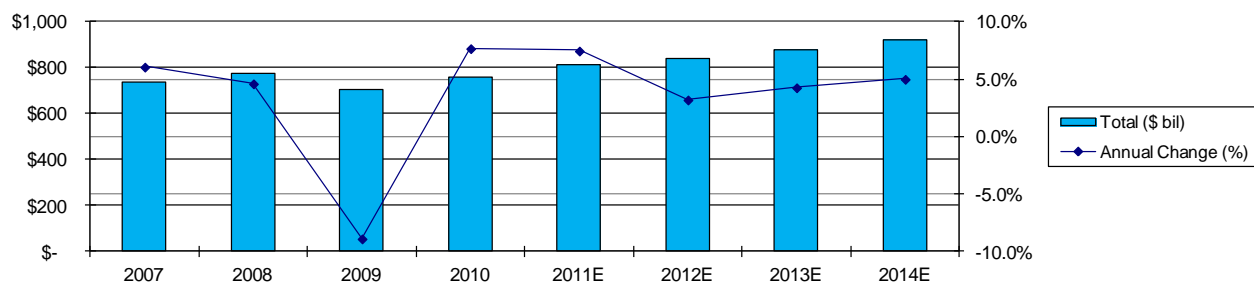
The global travel industry is one of the largest sectors of the economy, with the three largest travel markets being the U.S., Europe, and Asia-Pacific. After a slowdown in the global travel industry in 2008 and 2009 due to the global economic slowdown, the travel market has slowly recovered and is expected to grow an estimated +3–5% annual rate over the next 5 years.

Exhibit 15: Global Travel & Tourism Economic Impact (in 2011 US\$ billions)

| Travel & Tourism Direct Contribution to GDP (2011 US\$ bn) | | | | | | | |
|--|-------|-------|-------|-------|-------|-------|-------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Europe | 576 | 579 | 564 | 536 | 540 | 551 | 561 |
| North America | 477 | 486 | 475 | 442 | 466 | 487 | 492 |
| Asia | 445 | 472 | 472 | 471 | 493 | 518 | 549 |
| Africa | 117 | 127 | 132 | 137 | 139 | 141 | 148 |
| Latin America | 117 | 124 | 122 | 127 | 130 | 137 | 145 |
| World Total | 1,732 | 1,788 | 1,764 | 1,712 | 1,769 | 1,825 | 1,886 |

| Travel & Tourism Direct Contribution to GDP (Real Growth %) | | | | | | | |
|---|-------|------|-------|-------|------|------|------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
| Europe | 2.3% | 0.2% | -2.7% | -5.1% | 0.8% | 2.0% | 1.8% |
| North America | 0.2% | 1.9% | -2.2% | -6.9% | 5.6% | 4.4% | 1.1% |
| Asia | 7.5% | 6.0% | -0.1% | -0.2% | 4.8% | 4.9% | 6.1% |
| Africa | -2.4% | 8.7% | 3.7% | 4.1% | 1.0% | 1.4% | 5.5% |
| Latin America | -2.4% | 5.9% | -1.3% | 3.6% | 3.0% | 5.2% | 6.1% |
| World Total | 2.4% | 2.8% | -1.5% | -3.4% | 3.2% | 3.2% | 3.3% |

Source: World Travel & Tourism Council (WTTC)

Exhibit 16: Total Travel Expenditure in the U.S. (\$ billions)


Source: U.S. Travel Association

According to Kantar Media, travel companies in the U.S. spent \$2.8 billion in 2010 on advertising. With Internet usage increasing in the U.S. and globally, we believe that online advertising and e-commerce will continue to grow. In addition, the increased usage of the Internet is driving consumers to go online for content and research (which is increasing at a fast rate due to social media, blogs, and mobile computing), further driving more advertising spending towards online media.

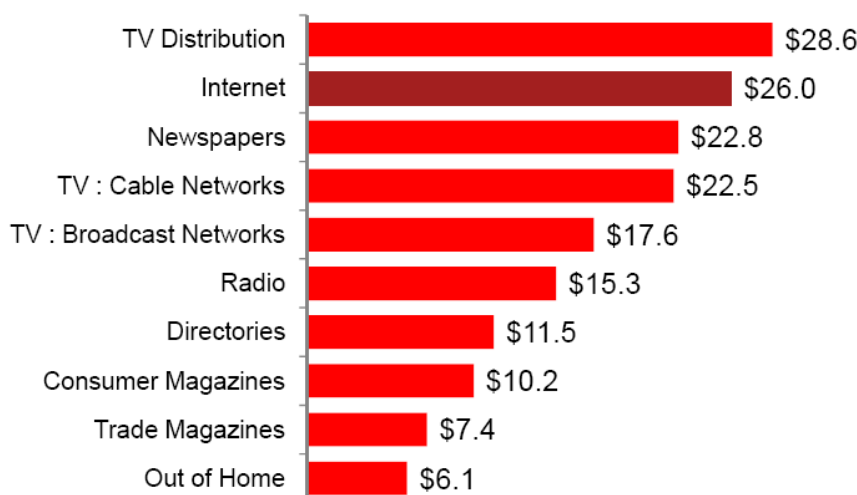
Key advantages are driving migration of advertising spending from offline (primarily newspapers but also television and radio) to online. For advertisers, online advertising advantages include faster time to market, measurable ROI, and real-time updates. For consumers, online travel advertising offers easy comparison, ability to search, email alerts, and in-depth product information.

Exhibit 17: U.S. Internet Advertising Revenues (\$ billions)

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---------------|--------|--------|--------|--------|--------|---------|---------|---------|---------|---------|---------|
| Revenues | \$ 8.1 | \$ 7.1 | \$ 6.0 | \$ 7.3 | \$ 9.6 | \$ 12.5 | \$ 16.9 | \$ 21.2 | \$ 23.5 | \$ 22.7 | \$ 26.0 |
| Annual Change | | -12% | -16% | 21% | 32% | 30% | 35% | 26% | 11% | -3% | 15% |

Source: IAB Internet Advertising Revenue Report, PwC

Exhibit 18: U.S. Advertising Market By Media Revenue – 2010 (in billions)



Source: IAB Internet Advertising Revenue Report, PwC

Internet advertising has grown along with the rise of the Internet (particularly display and search advertising), but success in local advertising on the Internet has been less productive. According to Euromonitor, the leisure, recreation and foodservice market is expected to be \$1.4 trillion in the U.S. and \$5.3 trillion internationally in 2011, while the retail market is expected to be \$2.9 trillion in the U.S. and \$12.2 trillion internationally in 2011. We believe the bulk of spending is done locally (within a short drive of a consumer's home).

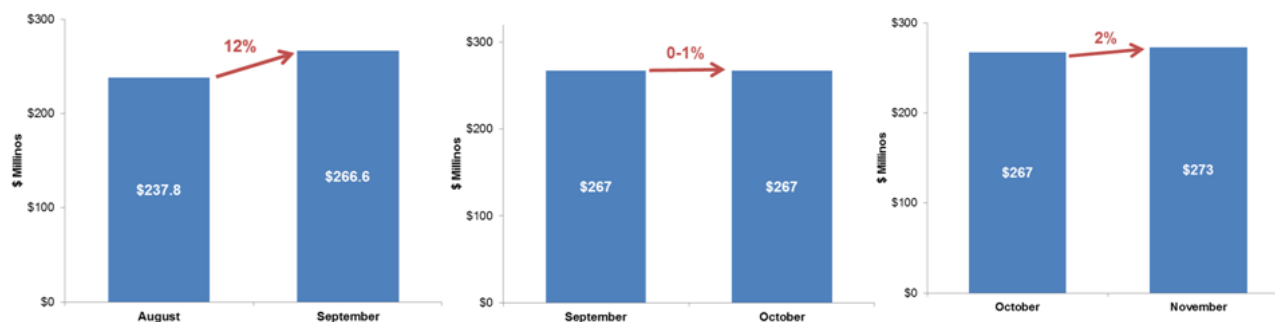
Traditionally, local merchants would reach consumers through a variety of advertisements, including the yellow pages, direct mail, newspaper, radio, television, and promotions. By connecting local merchants with consumers through the Internet, the daily deals industry has created a new form of advertising for merchants to attract customers.

The daily deals industry has become one of the fastest growing ever. Since pioneered by Groupon in 2008, it is now estimated to be \$5 billion a year globally (an estimated \$3 billion in the U.S.) in 2011. We expect growth rates to moderate, and forecast a CAGR of 15% over the next five years to reach \$9 billion globally (\$5 billion in the U.S.) in 2015.

Despite the expected solid long term growth prospects, we expect monthly variations and volatility in growth as the industry matures. According to Yipit (a daily deals aggregator and research provider), the U.S. daily deal industry (as measured by the top 30 markets) in November was +2% for total industry gross revenue and -1% for deals offered (from prior month), while October was mixed with revenue about flat despite the number of deals offered increasing 18%, and September's growth of +12% for revenue

and +6% for deals. We believe the past two months of flat growth are increasing signs that the high growth phase we have seen in this industry is slowing.

Exhibit 19: U.S. Daily Deals Industry Growth (Gross Revenue)



Source: Yipit

COMPETITION

Travelzoo competes with online advertising companies such as Google, Yahoo!, Microsoft/Bing and AOL, along with traditional media companies such as newspapers, television, and radio for advertising revenue. Most of the major online travel agents (such as Groupon Getaways with Expedia and Priceline PriceBreakers) have competing travel deals emails as well.

Of particular concern, Google has been making a big push into travel information and commerce. In 2011, Google completed its acquisition of ITA Software, a flight-information software company, for \$700 million. The acquisition of ITA enables Google to create online search tools, such as recommending specific flights, and its availability and pricing. Google also recently launched Google Hotel Finder and Google Flights which would provide information, availability and pricing for hotels and airfares, and has Google Reviews which provides traveler opinions.

Exhibit 20: Daily Deals Competition



Source: Groupon

Travelzoo's most direct competitors in the daily deals space is Groupon and Living Social. We estimate that Groupon has a ~50% market share in the U.S., while Living Social has ~25%, with the rest of the market consisting of a broad group of much smaller players (including Travelzoo at ~5%).



Based in Chicago, Groupon is the leading daily deals company in the world with a wide reach of over 79,000 merchants and 143 million subscribers. Groupon became a public company on November 4, 2011, raising \$700 million for the company (all primary shares), which equated to a \$13 billion valuation (current valuation is ~\$13 billion). Groupon's 2011 revenues are estimated to be \$1.6 billion.

Based in Washington D.C., Living Social is privately held (though speculated to be pursuing an IPO within the next six months) so financial information is limited. Living Social raised \$400 million in April 2011 (from investors including Amazon.com), valuing the company at a reported valuation of \$3 billion, and was on track for 2011 revenues of \$1 billion (which we believe is on a gross basis). In December 2011, Living Social raised \$176 million (out of a total offering size of \$400 million), valuing the company at \$6 billion (as reported by various media).

Groupon pioneered the daily deals space (in its current form), but has attracted a large number of competitors including Travelzoo due to relatively low barriers to entry, high industry growth, and potentially high profitability. A large number of competing group-buying sites have emerged (new companies or divisions of existing companies), offering essentially the same or similar products. The key differentiators between companies in this industry include quantity and quality of subscriber base and merchants (particularly those looking for or open to receiving daily deals emails), local presence and sales force, deal volume, brand recognition, technology (ease of use), and customer service.

Exhibit 21: North America Daily Deal Market Share Trends

yipit DATA • Daily Deal Market Share Trends
(North America)

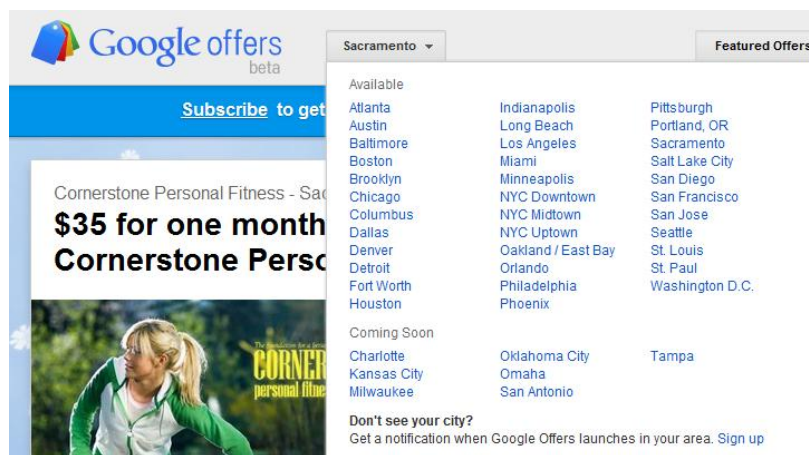
| | July | August | Change |
|--|------|--------|--------|
|  Groupon Collective Buying Power | 51% | 53% | 2% |
|  livingsocial | 22% | 20% | (2%) |
| Others | 27% | 27% | 0% |

Source: Yipit

Groupon and Living Social currently dominate the daily deals market, but we view large Internet companies, such as Amazon.com, Google, and Microsoft, as the biggest potential competition. These three companies already have their own daily deals offerings, with AmazonLocal, Google Offers, and Bing Deals. With greater resources, larger customer lists, better brand awareness, and access to proprietary search engines, competing with these companies could reduce Travelzoo's market share, customer traffic, and financial profits. Unlike popular social media companies like Facebook, Twitter, and LinkedIn, there are low switching costs and a limited network effect from using different daily deals companies (both for merchants and consumers). We believe that increased competition will likely have a negative effect on Travelzoo's take rate (the commission received from selling a voucher).

Google has been particularly active in this space after its unsuccessful bid (reportedly at \$6 billion) for Groupon in December 2010. Since starting Google Offers in June 2011, it is now in 35 cities with another 7 cities coming soon (up from 27 just two months ago). Google has been on an active hiring spree, and recently made news as two of its recent hires were sued by Groupon for joining Google Offers after working at Groupon.

Exhibit 22: Google Offers



Source: Google (as of 1/23/12)

FINANCIALS

Travelzoo generates revenues primarily from advertising sales and commissions. For its traditional travel newsletters and emails, the fees are typically fixed and are earned when the email advertisements are sent or displayed. For its Local Deals, revenue is its share (usually 25-50%) of the total voucher purchase price after subtracting out an agreed percentage owed to the merchants (usually 50-75%). Merchants are responsible for the fulfillment of the purchased goods or services. Travelzoo recognizes breakage revenue (when the redemption payment model is used) when a consumer does not redeem its voucher before the expiration date.

After initially starting its take rate (commission) at 40%, Travelzoo's take rates have steadily declined over the past year to an estimated 32% in Q4:11. While part of this is due to the mix shift to lower margin travel deals (which ranges from 25-30%), we believe some of the decreases may be due to increased competition for merchants and deals.

Travelzoo's Local Deals business model generates positive working capital because it receives cash from consumers at the time of a voucher purchase, but pays merchants (for their share) at a later date (33% immediately, 33% in 30 days, and 33% in 60 days in the U.S., and upon redemption in international). However, some competitors are using accelerated payment terms to drive merchant participation. Living Social and AmazonLocal pay merchants in full in 15 days, while Google Offers pays 80% within four days, and the remainder over 90 days.

Exhibit 23: Local Deals Growth (in thousands)

| | Sep-10A | Dec-10A | 2010E | Mar-11A | Jun-11A | Sep-11A | Dec-11A | 2011A | Mar-12E | Jun-12E | Sep-12E | Dec-12E | 2012E | Mar-13E | Jun-13E | Sep-13E | Dec-13E | 2013E |
|-----------------------------------|---------|----------|----------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|------------|-----------|-----------|-----------|-----------|------------|
| Local Deals Gross Billings | \$ 800 | \$ 8,000 | \$ 8,800 | \$ 16,200 | \$ 26,200 | \$ 34,200 | \$ 31,000 | \$ 107,600 | \$ 34,219 | \$ 40,494 | \$ 44,617 | \$ 44,253 | \$ 163,583 | \$ 39,520 | \$ 46,627 | \$ 49,573 | \$ 49,037 | \$ 184,757 |
| Estimated Local Deals Net Revenue | \$ 300 | \$ 3,200 | \$ 3,500 | \$ 6,000 | \$ 9,000 | \$ 11,000 | \$ 10,000 | \$ 36,000 | \$ 10,608 | \$ 12,553 | \$ 13,385 | \$ 13,276 | \$ 49,822 | \$ 11,856 | \$ 13,988 | \$ 14,872 | \$ 14,711 | \$ 55,427 |
| Estimated Commission Rate | 38% | 40% | 40% | 37% | 34% | 32% | 32% | 33% | 31% | 31% | 30% | 30% | 30% | 30% | 30% | 30% | 30% | 30% |
| Local Deals Gross Billings Growth | | | | | | | | | | | | | | | | | | |
| Year / Year | | | | | | 4175% | 288% | 1123% | 111% | 55% | 30% | 43% | 52% | 15% | 15% | 11% | 11% | 13% |
| Qtr / Qtr | | 900% | | 103% | 62% | 31% | -9% | | 10% | 18% | 10% | -1% | | -11% | 18% | 6% | -1% | |
| Estimated Local Deals Net Revenue | | | | | | | | | | | | | | | | | | |
| Year / Year | | | | | | 3567% | 213% | 929% | 77% | 39% | 22% | 33% | 38% | 12% | 11% | 11% | 11% | 11% |
| Qtr / Qtr | | 967% | | 88% | 50% | 22% | -9% | | 6% | 18% | 7% | -1% | | -11% | 18% | 6% | -1% | |
| Local Deals as % of Total Revenue | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |

Source: Company report and Ascendant Capital Markets estimates

Recent Results (Q4 ending December 2011)

Travelzoo's recent financial performance has been somewhat mixed. In its Q4 2011 report (reported on January 23, 2011), the company again had high annual revenue growth, but its sequential quarterly growth has slowed significantly. Q4 revenues of \$35 million was up 23% y-o-y, but was down 9% sequentially from Q3. The majority of the annual revenue increase was due to incremental Local Deals revenue, which has grown significantly since its launch in Q3 2010. We do note that due to the seasonality of travel, Q4 tends to be its weakest quarter.

The company has done a good job managing expenses, with selling & marketing costs again decreasing significantly (to Q4's \$14 million, down from Q3's \$17 million and Q2's \$19 million). The lower operating costs were not able to offset lower revenues as operating income decreased to \$8.2 million from Q3's \$9.2 million, but was up from Q4 2010's \$6.7 million. EPS was \$0.40 (benefiting from \$0.6 million in special tax adjustments), compared with Q3's \$0.36 and Q4 2010 \$0.23.

Q4's total subscribers increased to 21.5 million (+14% y-o-y, +1% q-o-q). North American subscribers increased to 15.7 million (+10% y-o-y, +1% q-o-q), while European subscribers increased to 5.8 million (+26% y-o-y, +2% q-o-q) despite lower overall marketing spending. The company has been benefiting from slight reductions in subscriber acquisition costs (SAC). Q3 North American SAC was \$0.66 vs. Q2's \$1.16, Q3 2010's \$1.60. Q3 European SAC was \$2.76 vs. Q2's \$2.26, Q3 2010's \$2.90.

Exhibit 24: Consensus Expectations

| | Revenue | | | EPS | |
|--------|---------|--------|--------|---------|---------|
| | 2012E | 2013E | | 2012E | 2013E |
| Q1 Mar | \$44E | | Q1 Mar | \$0.40E | \$0.43E |
| Q2 Jun | \$44E | | Q2 Jun | \$0.40E | \$0.42E |
| Q3 Sep | \$45E | | Q3 Sep | \$0.41E | \$0.42E |
| Q4 Dec | \$45E | | Q4 Dec | \$0.41E | \$0.39E |
| Total | \$176E | \$205E | Total | \$1.64E | \$1.93E |

Source: First Call and Ascendant Capital Markets estimates

We have modeled significantly moderating growth in 2012 (revenue growth of +13% compared with 2011's +32%). We have modeled operating costs to remain steady, resulting in flat operating income margins. For 2012, we expect revenues of \$168

million, and EPS of \$1.60. For 2012, our estimates are slightly below consensus estimates due to our belief that Local Deals growth will continue to slow due to increased competition and consumer fatigue. We note that the company does not provide guidance.

We believe that the biggest potential variable in our financial model is Local Deals growth. If the company can continue its high growth rates, then earnings will likely grow significantly. However, if growth rates slow significantly, then earnings growth will likely be much more moderate.

The company's balance sheet is solid with \$39 million in cash, and no debt as of December. The company completed its recently announced (in August) 500,000 share buyback in Q3, buying back 500,000 shares for \$15 million (~\$30/share).

FINANCIAL MODEL

Travelzoo, Inc.

| Income Statement (\$ mils) | Mar-11 | Jun-11 | Sep-11 | Dec-11 | 2011 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | 2012 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | 2013 |
|---------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|--------|--------|--------|-------|
| Fiscal Year End: December 31 | Q1A | Q2A | Q3A | Q4A | FY-A | Q1E | Q2E | Q3E | Q4E | FY-E | Q1E | Q2E | Q3E | Q4E | FY-E |
| Revenue | 37.0 | 37.6 | 38.7 | 35.2 | 148.3 | 42.2 | 43.4 | 42.5 | 39.6 | 167.7 | 47.4 | 48.4 | 47.5 | 44.2 | 187.6 |
| Cost of Revenues | 2.4 | 2.5 | 4.2 | 3.7 | 12.8 | 4.9 | 5.0 | 4.9 | 4.6 | 19.3 | 5.7 | 6.3 | 6.4 | 6.2 | 24.6 |
| Gross Profit | 34.5 | 35.1 | 34.4 | 31.5 | 135.5 | 37.4 | 38.4 | 37.6 | 35.1 | 148.4 | 41.7 | 42.1 | 41.1 | 38.0 | 163.0 |
| Operating expenses: | | | | | | | | | | | | | | | |
| Sales and marketing | 16.2 | 19.1 | 16.7 | 13.9 | 65.9 | 18.0 | 18.5 | 18.2 | 18.1 | 72.8 | 19.0 | 20.0 | 19.5 | 19.1 | 77.6 |
| General and administrative | 8.4 | 8.3 | 8.5 | 9.4 | 34.6 | 9.0 | 9.1 | 9.2 | 8.5 | 35.8 | 10.0 | 10.0 | 10.0 | 10.0 | 40.0 |
| Total operating expenses | 24.5 | 27.4 | 25.2 | 23.3 | 100.5 | 27.0 | 27.6 | 27.4 | 26.6 | 108.6 | 29.0 | 30.0 | 29.5 | 29.1 | 117.6 |
| Operating income (loss) | 10.0 | 7.6 | 9.2 | 8.2 | 35.0 | 10.4 | 10.8 | 10.2 | 8.5 | 39.8 | 12.7 | 12.1 | 11.6 | 8.9 | 45.4 |
| Interest income and other | (19.9) | 0.0 | 0.0 | 0.2 | (19.7) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Income before income taxes | (9.9) | 7.7 | 9.2 | 8.4 | 15.3 | 10.4 | 10.8 | 10.2 | 8.5 | 39.8 | 12.7 | 12.1 | 11.6 | 8.9 | 45.4 |
| Income taxes | 4.0 | 2.8 | 3.3 | 1.9 | 12.0 | 3.6 | 3.8 | 3.6 | 3.0 | 13.9 | 4.4 | 4.2 | 4.1 | 3.1 | 15.9 |
| Net income (loss) | (14.0) | 4.9 | 5.9 | 6.4 | 3.3 | 6.7 | 7.0 | 6.6 | 5.5 | 25.9 | 8.3 | 7.9 | 7.5 | 5.8 | 29.5 |
| Nonrecurring/noncash adjustm | 20.0 | | | | 20.0 | | | | | | | | | | |
| Net income | 6.0 | 4.9 | 5.9 | 6.4 | 23.3 | 6.7 | 7.0 | 6.6 | 5.5 | 25.9 | 8.3 | 7.9 | 7.5 | 5.8 | 29.5 |
| EBITDAS | 10.6 | 8.5 | 10.2 | 9.0 | 38.2 | 11.0 | 11.4 | 10.8 | 9.1 | 42.2 | 13.3 | 12.7 | 12.2 | 9.5 | 47.8 |
| Shares, Basic | 16.5 | 16.5 | 16.4 | 16.0 | 16.3 | 16.1 | 16.2 | 16.2 | 16.2 | 16.1 | 16.3 | 16.4 | 16.4 | 16.4 | 16.3 |
| Shares, Diluted | 16.5 | 16.6 | 16.5 | 16.0 | 16.4 | 16.1 | 16.2 | 16.2 | 16.2 | 16.2 | 16.3 | 16.4 | 16.4 | 16.4 | 16.4 |
| EPS Basic (Pro forma) | 0.37 | 0.30 | 0.36 | 0.40 | 1.43 | 0.42 | 0.43 | 0.41 | 0.34 | 1.60 | 0.51 | 0.48 | 0.46 | 0.36 | 1.81 |
| EPS Diluted (Pro forma) | 0.37 | 0.30 | 0.36 | 0.40 | 1.42 | 0.42 | 0.43 | 0.41 | 0.34 | 1.60 | 0.51 | 0.48 | 0.46 | 0.35 | 1.80 |
| Margins | | | | | | | | | | | | | | | |
| Gross margin | 93.5% | 93.3% | 89.1% | 89.5% | 91.4% | 88.5% | 88.5% | 88.5% | 88.5% | 88.5% | 88.0% | 87.0% | 86.5% | 86.0% | 86.9% |
| Operating margin | 27% | 20% | 24% | 23% | 24% | 25% | 25% | 24% | 21% | 24% | 27% | 25% | 24% | 20% | 24% |
| Net margin | -38% | 13% | 15% | 18% | 2% | 16% | 16% | 16% | 14% | 15% | 17% | 16% | 16% | 13% | 16% |
| Sales and marketing | 44% | 51% | 43% | 40% | 44% | 43% | 43% | 43% | 46% | 43% | 40% | 41% | 41% | 43% | 41% |
| General and administrative | 23% | 22% | 22% | 27% | 23% | 21% | 21% | 22% | 21% | 21% | 21% | 21% | 21% | 23% | 21% |
| Tax rate, GAAP | -40% | 36% | 36% | 23% | 78% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% | 35% |
| Y/Y % change | | | | | | | | | | | | | | | |
| Revenue | 30% | 34% | 40% | 23% | 32% | 14% | 15% | 10% | 13% | 13% | 12% | 12% | 12% | 12% | 12% |
| Cost of Revenues | 46% | 55% | 142% | 64% | 77% | 101% | 100% | 16% | 24% | 50% | 17% | 26% | 31% | 36% | 28% |
| Operating income (loss) | 94% | 29% | 62% | 22% | 49% | 4% | 41% | 10% | 4% | 14% | 23% | 12% | 14% | 6% | 14% |
| Net income (loss) | NM | 51% | 62% | 70% | -75% | NM | 43% | 12% | -14% | NM | 23% | 12% | 14% | 6% | 14% |
| EPS Diluted (Pro forma) | 144% | 50% | 62% | 75% | 78% | 14% | 46% | 14% | -15% | 12% | 21% | 11% | 13% | 4% | 13% |
| Q/Q % change | | | | | | | | | | | | | | | |
| Revenue | 30% | 2% | 3% | -9% | | 20% | 3% | -2% | -7% | | 20% | 2% | -2% | -7% | |
| Cost of Revenues | 8% | 3% | 69% | -13% | | 32% | 3% | -2% | -7% | | 25% | 11% | 2% | -3% | |
| Operating income (loss) | 49% | -24% | 21% | -11% | | 27% | 4% | -6% | -17% | | 50% | -5% | -4% | -23% | |
| Net income (loss) | NM | NM | 20% | 8% | | 5% | 4% | -6% | -17% | | 50% | -5% | -4% | -23% | |
| EPS Diluted (Pro forma) | 60% | -19% | 21% | 12% | | 4% | 3% | -6% | -17% | | 49% | -5% | -4% | -23% | |

Source: Company reports and Ascendant Capital Markets estimates.

Travelzoo, Inc.

| Balance Sheet (\$ mils) | Mar-11 | Jun-11 | Sep-11 | Dec-11 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | Mar-13 | Jun-13 | Sep-13 | Dec-13 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|-----------------|
| Fiscal Year End: December 31 | Q1A | Q2A | Q3A | Q4A | Q1E | Q2E | Q3E | Q4E | Q1E | Q2E | Q3E | Q4E |
| Assets | | | | | | | | | | | | |
| Current assets: | | | | | | | | | | | | |
| Cash and cash equivalents | \$ 51.7 | \$ 40.1 | \$ 32.4 | \$ 38.7 | \$ 46.5 | \$ 57.3 | \$ 64.0 | \$ 69.7 | \$ 77.6 | \$ 86.2 | \$ 93.6 | \$ 100.2 |
| Short term investments | | | | | - | - | - | - | - | - | - | - |
| Accounts receivable, net | 16.4 | 15.9 | 14.1 | 13.3 | 16.5 | 16.9 | 16.6 | 15.4 | 18.5 | 18.9 | 18.5 | 17.2 |
| Deposits | 0.1 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Prepaid expenses and other current asset | 1.3 | 1.6 | 2.3 | 2.1 | 2.4 | 2.5 | 2.5 | 2.4 | 2.6 | 2.7 | 2.7 | 2.6 |
| Deferred income taxes | 1.4 | 4.3 | 3.9 | 4.5 | 4.5 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total current assets | 71.0 | 62.2 | 52.9 | 59.0 | 70.2 | 77.9 | 84.3 | 88.9 | 100.0 | 109.1 | 116.0 | 121.4 |
| Deposits | 4.0 | 4.0 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| Deferred income taxes | 0.3 | 0.3 | 0.3 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 | 1.2 |
| Property and equipment, net | 3.7 | 3.4 | 3.5 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Intangibles, net | 1.0 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Total assets | \$ 80.0 | \$ 70.8 | \$ 61.4 | \$ 68.3 | \$ 79.5 | \$ 87.3 | \$ 93.6 | \$ 98.2 | \$ 109.3 | \$ 118.4 | \$ 125.4 | \$ 130.7 |
| Liabilities and stockholders' equity | | | | | | | | | | | | |
| Current liabilities: | | | | | | | | | | | | |
| Accounts payable | \$ 13.6 | \$ 15.7 | \$ 17.2 | \$ 21.7 | \$ 25.2 | \$ 25.7 | \$ 25.6 | \$ 24.8 | \$ 27.0 | \$ 28.0 | \$ 27.5 | \$ 27.1 |
| Accrued expenses | 9.7 | 13.4 | 11.0 | 6.3 | 7.3 | 7.5 | 7.4 | 7.2 | 7.9 | 8.1 | 8.0 | 7.9 |
| Deferred revenue | 1.4 | 1.4 | 1.6 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 |
| Income tax payable and other | 20.6 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total current liabilities | 45.3 | 30.8 | 30.2 | 30.6 | 35.1 | 35.8 | 35.5 | 34.6 | 37.5 | 38.7 | 38.1 | 37.6 |
| Total other liabilities | 2.1 | 2.2 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Stockholders' equity: | | | | | | | | | | | | |
| Common stock | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Treasury Stock | | | (15.1) | (15.1) | (15.1) | (15.1) | (15.1) | (15.1) | (15.1) | (15.1) | (15.1) | (15.1) |
| Retained earnings | 26.2 | 31.1 | 37.1 | 43.5 | 50.2 | 57.2 | 63.8 | 69.4 | 77.6 | 85.5 | 93.1 | 98.9 |
| Additional paid-in capital | 7.1 | 7.3 | 7.5 | 7.7 | 7.7 | 7.7 | 7.7 | 7.7 | 7.7 | 7.7 | 7.7 | 7.7 |
| Unearned compensation | | | | | | | | | | | | |
| Accumulated other comprehensive (loss) | (0.8) | (0.8) | (1.3) | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) | (1.4) |
| Accumulated deficit | - | - | - | - | - | - | - | - | - | - | - | - |
| Total stockholders' equity | 32.7 | 37.7 | 28.3 | 34.8 | 41.5 | 48.5 | 55.1 | 60.6 | 68.9 | 76.8 | 84.3 | 90.1 |
| Total stockholders' equity and liabilities | \$ 80.0 | \$ 70.8 | \$ 61.4 | \$ 68.3 | \$ 79.5 | \$ 87.3 | \$ 93.6 | \$ 98.2 | \$ 109.3 | \$ 118.4 | \$ 125.4 | \$ 130.7 |

Source: Company reports and Ascendant Capital Markets estimates.

Travelzoo, Inc.

| Cash Flow Statement (\$ mils) | Mar-11 | Jun-11 | Sep-11 | Dec-11 | 2011 | Mar-12 | Jun-12 | Sep-12 | Dec-12 | 2012 | Mar-13 | Jun-13 | Sep-13 | Dec-13 | 2013 |
|---|-----------------|------------------|------------------|-----------------|------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Fiscal Year End: December 31 | Q1A | Q2A | Q3A | Q4A | FY-A | Q1E | Q2E | Q3E | Q4E | FY-E | Q1E | Q2E | Q3E | Q4E | FY-E |
| Cash flow from operating activities | | | | | | | | | | | | | | | |
| Net income | (14.0) | 4.9 | 5.9 | 6.4 | 3.3 | 6.7 | 7.0 | 6.6 | 5.5 | 25.9 | 8.3 | 7.9 | 7.5 | 5.8 | 29.5 |
| Depreciation and amortization | 0.6 | 0.7 | 0.7 | 0.7 | 2.7 | 0.4 | 0.4 | 0.4 | 0.4 | 1.6 | 0.4 | 0.4 | 0.4 | 0.4 | 1.6 |
| Deferred income taxes | 0.1 | 0.1 | 0.0 | (0.5) | (0.3) | - | - | - | - | - | - | - | - | - | - |
| Provision for losses on accounts receivable | 0.0 | 0.0 | (0.1) | 0.1 | 0.1 | - | - | - | - | - | - | - | - | - | - |
| Non-cash revenues other than barter | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Tax benefit of stock option exercises | (0.1) | 0.2 | 0.2 | 0.2 | 0.5 | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 | 0.2 | 0.2 | 0.2 | 0.2 | 0.8 |
| Accrued interest income from investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other gains/losses | - | - | - | - | - | (0.2) | (0.2) | (0.2) | (0.2) | (0.8) | (0.2) | (0.2) | (0.2) | (0.2) | (0.8) |
| F/X gains/losses | (0.0) | 0.0 | 0.1 | 0.1 | 0.1 | - | - | - | - | - | - | - | - | - | - |
| Changes in operating assets and liabilities: | | | | | | | | | | | | | | | |
| Accounts receivable | (2.9) | 0.5 | 1.7 | 0.6 | (0.1) | (3.1) | (0.5) | 0.4 | 1.1 | (2.1) | (3.0) | (0.4) | 0.4 | 1.3 | (1.8) |
| Deposits | (0.6) | (0.1) | 0.1 | (0.1) | (0.7) | - | - | - | - | - | - | - | - | - | - |
| Prepaid expenses & other current assets | 0.5 | (3.0) | (0.3) | (0.9) | (3.7) | (0.3) | 3.5 | 0.0 | 0.1 | 3.3 | (0.2) | (0.1) | 0.0 | 0.0 | (0.2) |
| Accounts payable | 3.4 | 2.2 | 1.8 | 4.6 | 12.1 | 3.4 | 0.6 | (0.2) | (0.7) | 3.1 | 2.2 | 0.9 | (0.5) | (0.4) | 2.3 |
| Accrued expenses | 23.4 | 3.8 | (2.2) | (4.7) | 20.3 | 1.0 | 0.2 | (0.1) | (0.2) | 0.9 | 0.7 | 0.3 | (0.1) | (0.1) | 0.7 |
| Deferred revenue | 0.0 | 0.1 | 0.2 | 0.6 | 0.9 | - | - | - | - | - | - | - | - | - | - |
| Income tax payable and other | 0.1 | (20.5) | 0.9 | 0.1 | (19.4) | - | - | - | - | - | - | - | - | - | - |
| Net cash (used in) provided by operating activities | \$ 10.7 | \$ (11.2) | \$ 9.1 | \$ 7.1 | \$ 15.6 | \$ 8.2 | \$ 11.2 | \$ 7.2 | \$ 6.1 | \$ 32.6 | \$ 8.3 | \$ 9.0 | \$ 7.7 | \$ 7.0 | \$ 32.1 |
| Cash flow from investing activities | | | | | | | | | | | | | | | |
| Purchases of property and equipment | (0.7) | (0.4) | (0.8) | (0.6) | (2.5) | (0.4) | (0.4) | (0.4) | (0.4) | (1.6) | (0.4) | (0.4) | (0.4) | (0.4) | (1.6) |
| Purchases of short-term investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Sale of short-term investments | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Purchases of intangible assets | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Net cash used in investing activities | \$ (0.7) | \$ (0.4) | \$ (0.8) | \$ (0.6) | \$ (2.5) | \$ (0.4) | \$ (0.4) | \$ (0.4) | \$ (0.4) | \$ (1.6) | \$ (0.4) | \$ (0.4) | \$ (0.4) | \$ (0.4) | \$ (1.6) |
| Cash flow from financing activities | | | | | | | | | | | | | | | |
| Repayment of loans from principal stockholder | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Repurchase of common stock | 0.0 | - | (15.1) | - | (15.1) | - | - | - | - | - | - | - | - | - | - |
| Proceeds from stock option exercises | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Proceeds from issuance of common stock | 0.3 | - | - | - | 0.3 | - | - | - | - | - | - | - | - | - | - |
| Cash provided by (used in) financing | \$ 0.3 | \$ - | \$ (15.1) | \$ - | \$ (14.8) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Effect of exchange rate on cash and cash equivalents | 0.2 | (0.0) | (0.8) | (0.2) | (0.8) | - | - | - | - | - | - | - | - | - | - |
| Net increase (decrease) in cash and cash equivalents | 10.5 | (11.6) | (7.7) | 6.3 | (2.4) | 7.8 | 10.8 | 6.8 | 5.7 | 31.0 | 7.9 | 8.6 | 7.3 | 6.6 | 30.5 |
| Beginning cash and equivalents | 41.2 | 51.7 | 40.1 | 32.4 | 41.2 | 38.7 | 46.5 | 57.3 | 64.0 | 38.7 | 69.7 | 77.6 | 86.2 | 93.6 | 69.7 |
| Ending cash and equivalents | 51.7 | 40.1 | 32.4 | 38.7 | 38.7 | 46.5 | 57.3 | 64.0 | 69.7 | 69.7 | 77.6 | 86.2 | 93.6 | 100.2 | 100.2 |

Source: Company reports and Ascendant Capital Markets estimates.

Public Companies Under Coverage Mentioned in this Report (priced as of close 1/26/12)

| COMPANY | TICKER | RATING | PRICE | PRICE TARGET |
|---------|--------|--------|---------|--------------|
| GROUPON | GRPN | SELL | \$19.53 | \$14 |

ANALYST CERTIFICATION

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