



The Active Network, Inc.
Buy

ACTV: \$13.31
Price Target: \$23.00

Internet

**ACTV: Solid 2Q Driven by Marketing Services;
Maintain Buy and \$23 PT**

THINK ACTION:

ACTV reported solid 2Q11 results, its first as a public company. Over the quarter, registration revenue grew 15% Y/Y, driven by 8% growth of revenue per registration and 7% growth of registrations. Marketing services were also solid, helping deliver a solid top-line beat. Revenue upside, favorable mix shift and leverage drove a solid bottom-line outperformance - EBITDA and non-GAAP were 16% and \$0.06 ahead of our estimates. We reiterate our Buy rating and maintain our \$23 price target.

KEY POINTS:

Q2 Summary. Active Network reported a solid Q2 with both revenue and EBITDA above our estimates and consensus. Revenues of \$99M (up 21% Y/Y) exceeded our estimate of \$95M and consensus of \$95.2M. Revenue upside was mainly driven by higher marketing services and software fees. Registrations increased 7% Y/Y (vs. our 8% estimate) while revenue per registration increased 8% (in line with our estimate). Top-line upside and mix shift to higher margin marketing services helped drive adjusted EBITDA of \$20.4M, 16% above our and the Street estimates.

Positives:

- **Marketing Services Upside.** Marketing services revenues increased 28% Y/Y, accelerating from 1Q11's 16%, driven by strong advertising revenues to its key destination sites.
- **Software growth accelerates.** Software revenue grew 49% Y/Y in Q2, accelerating from Q1's 13%, mainly due to several early closed implementation contracts. Management does expect software growth to moderate in Q3.
- **Solid Margin Expansion.** Revenue upside and mix shift led to gross margin expansion of 110bps Y/Y to 59.4%. Operating expense of \$51.3M was roughly in line with our estimates. Upside to revenues and in line expenses led to an adjusted EBITDA margin of 20.6%, up 600bps Y/Y and 200bps above our estimates.
- **Emerging Segments Appear Promising.** Management noted that some of its newer subverticals (i.e. Golf and Education) are seeing good traction and is confident with the growth prospects for these areas.

Negatives:

- **Registration growth slightly below our estimate.** Registrations increased 7% Y/Y, slightly below our estimate of 8%. Management believes the inclement weather in Q2 had a modest impact on its outdoor segment.

Estimates. We are modestly increasing our estimates to reflect the upside in 2Q and improved marketing services outlook. For 2011, our revenue and EBITDA estimates move from \$324M and \$32.8M to \$330M and \$35M. For 2012, we move our revenue and EBITDA estimates from \$374M and \$53.5M to \$377M and \$54.2M.

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Changes	Current	Previous
Rating	Buy	--
Price Target	\$23.00	--
FY11E REV (M)	\$330.1E	\$324.1E
FY12E REV (M)	\$377.3E	\$373.6E
FY11E EPS	(\$0.07)E	(\$0.11)E
FY12E EPS	\$0.17E	\$0.16E

52-Week High:	\$19.99
52-Week Low:	\$13.02
Shares O/S-Diluted (M):	57.4
Market Cap (M):	\$764.0
Average Daily Volume:	NA
Short Interest:	2.2%
Debt/Total Cap:	0.0%
Net Cash Per Share:	\$2.80
P/E (12-month forward):	NA
Est. Long-Term EPS Growth:	35.0%
P/E/G:	NM
Fiscal Year-End:	Dec

REV (M) \$	2010A	2011E	2012E
Mar	63.2A	72.7A	NA
Jun	81.7A	99.0A	NA
Sep	73.1A	86.9E	NA
Dec	61.6A	71.5E	NA
FY	279.6A	330.1E	377.3E
CY	NA	NA	NA
FY P/S	2.7x	2.3x	2.0x
CY P/S	2.7x	2.3x	2.0x

EPS \$	2010A	2011E	2012E
Mar	(0.19) A	(0.17) A	NA
Jun	0.06A	0.18E	NA
Sep	0.01A	0.04E	NA
Dec	(0.12) A	(0.15) E	NA
FY	(0.25) A	(0.07) E	0.17E
CY	NA	NA	NA
FY P/E	NM	NM	78.3x
CY P/E	NM	NM	78.3x

EPS is Non-GAAP



Quarter Highlights. Active Network reported a solid Q2 with both revenue and EBITDA above our estimates and consensus. Revenues of \$99M (up 21% Y/Y) exceeded our estimate of \$95M and consensus of \$95.2M. Revenue upside was mainly driven by higher marketing services and software fees. Registration revenues of \$69.7M (15% Y/Y) were slightly below our \$70.6M estimate. Registrations increased 7% Y/Y (vs. our 8% estimate) while revenue per registration increased 8% (in line with our estimate). Software revenues of \$15.8M (49% Y/Y) exceeded our \$13.3M estimate as a few deals closed sooner than we expected. Marketing Services revenues of \$13.5M (28% Y/Y) exceeded our \$11.1M estimate as Active benefited from higher advertising on its core destination Websites. Top-line upside and mix shift to higher margin marketing services helped drive adjusted EBITDA of \$20.4M, 16% above our and the Street estimates.

Key Metrics:

- Net registration revenue was up 15% Y/Y, versus our estimate of 16.6% Y/Y.
- Registrations was up 7% Y/Y to 22,926, versus our estimate of 8% and 23,200, respectively.
- Net registration revenue per registration was up 8% Y/Y to \$3.04, roughly in line with our estimates.

Estimates vs. Actuals Table						
\$ in M, except EPS	2QA	Y/Y %	Est.	Diff \$	Diff %	Consensus
Registration	\$69.7	15%	\$70.6	(0.9)	-1%	
Software	\$15.8	49%	\$13.3	2.5	19%	
Technology	\$85.6	20%	\$83.9	1.7	2%	
Marketing Services	\$13.5	28%	\$11.1	2.4	21%	
Net Revenue	\$99.0	21%	\$95.0	4.0	4.2%	\$95.2
Gross Profits	\$58.8	24%	\$57.3	1.5	2.6%	
Gross Margin	59.4%		60.4%	-1%	-1.6%	
Operating income	\$7.5		\$5.3	2.2	41.8%	
Operating Margin	7.6%		5.6%			
EBITDA	\$20.4	72%	\$17.6	2.8	15.9%	
GAAP EPS	\$0.03		\$0.05	(\$0.02)	-43.2%	\$0.11
PF EPS	\$0.18	212%	\$0.12	\$0.05	44.5%	

Source: Company reports, ThinkEquity LLC estimates, FactSet

Guidance

For Q3, Active Network guided net revenues to \$84-88M (versus our estimate of \$86.3M and consensus of \$86.4M), with registrations growth of 5-7% and revenue per registration growth of 6-8% Y/Y. On the bottom-line, the company expects net loss of \$3.5M-\$1.5M and adjusted EBITDA of \$10M to \$12M, versus our previous estimate of (\$2M) and \$11.6M and consensus of (\$0.6M) and \$12.1M.

Estimates

We are modestly increasing our estimates to reflect the upside in 2Q and improved marketing services outlook. For 2011, our revenue and EBITDA estimates move from \$324M and \$32.8M to \$330M and \$35M. For 2012, we move our revenue and EBITDA estimates from \$374M and \$53.5M to \$377M and \$54.2M.

Period	Revenue (\$M)			EBITDA (\$M)			PF EPS		
	From	To	% Change	From	To	% Change	From	To	Change
1Q11A	\$72.7	\$72.7	0%	\$2.6	\$2.6	-1%	(\$0.17)	(\$0.17)	(\$0.00)
2Q11A	\$95.0	\$99.0	4%	\$17.6	\$20.4	16%	\$0.12	\$0.18	\$0.05
3Q11E	\$86.3	\$86.9	1%	\$11.6	\$11.7	1%	\$0.03	\$0.04	\$0.01
4Q11E	\$70.1	\$71.5	2%	\$1.0	\$0.3	-70%	(\$0.13)	(\$0.15)	(\$0.02)
FY11E	\$324.1	\$330.1	2%	\$32.8	\$35.0	6%	(\$0.11)	(\$0.07)	\$0.04
FY12E	\$373.6	\$377.3	1%	\$53.5	\$54.2	1%	\$0.16	\$0.17	\$0.01

Source: Company reports and ThinkEquity LLC estimates



VALUATION:

Our \$23 per-share price target for ACTV shares is based on 25x our 2012 EBITDA estimate of \$54M. We believe a 25x multiple is justified given our view for 35%-plus long-term EBITDA growth.

RISKS TO PRICE TARGET:

Acquisitions. Active has been highly acquisitive, with over 25 acquisitions over the past five years. Going forward, we believe the company will likely continue to be acquisitive to gain share and expand into new categories and geographies. While we believe the company's track record in integrating acquisitions has been good thus far, acquisitions always create uncertainties and could be a distraction for management.

Competition. While we believe the market for Web-based reservations and activity-based software is highly fragmented, we believe the large and growing market opportunity is likely to attract additional entrants. Today, Active primarily competes with legacy registration methods such as pen and paper, mail, and phone based reservations. Additionally, Active competes with internally developed software applications, off-the-shelf software (i.e., Microsoft Excel), as well as companies that offer Web-based solutions in one or more of its vertical areas.

Slower Adoption of Web-Based Reservation Systems. While online penetration for events and activities registration is still low today, which we believe presents significant growth potential for the company, slower-than-expected online adoption from organizations and participants may limit Active Network's near-term growth potential.

Macroeconomic Environment. We believe the activities and events market is sensitive to consumer sentiment and the overall economic environment. For instance, the company experienced a significant slowdown in its business in the second half of 2008 due to the economic downturn. In addition, due to the company's exposure to the parks and recreation segment, governmental budgetary cuts could adversely impact the company's growth rates.

Transition to ActiveWorks Platform. While we believe the company's transition from its legacy platform to PaaS-based ActiveWorks should drive increased efficiencies and margin expansion, the transition is time consuming and requires significant investment. We note that in 2010, approximately 35% of Active's research and development spending was on the legacy platform. We currently expect Active to transition off the legacy platform by 2014. Delays in the transition (i.e., difficulties in convincing customers to migrate) would likely adversely impact Active's operating leverage.

COMPANY DESCRIPTION:

Active Network was originally incorporated in California in October 1998 as Racegate.com and in May 2001, the company changed its name to The Active Network. Active Network is a leading provider of cloud-based reservation and marketing solutions serving a variety of customer groups, including business events, community activities, outdoors, and sports. In 2010, Active Network had over 47,000 customer organizations and processed over 70 million consumer registrations. Active Network is based in San Diego, CA and has over 2,400 full-time employees. Headquartered in San Diego, California, the company has approximately 2,281 employees at the end of 2010, which included approximately 250 temporary employees and independent contractors.

Active Network Income Statement

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\$ in M, except per share data	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11E	4Q11E	2011E	2012E	2013E
Registration		174.0	45.7	60.6	52.1	39.3	197.6	51.4	69.7	59.8	44.5	225.5	253.3	283.1
Software		36.5	9.3	10.6	10.3	9.9	40.1	11.7	15.8	14.5	13.9	55.8	67.0	78.7
Technology	145.8	210.5	54.9	71.2	62.4	49.2	237.7	63.1	85.6	74.2	58.4	281.3	320.3	361.8
Marketing Services	27.4	32.4	8.3	10.5	10.7	12.4	41.9	9.6	13.5	12.6	13.1	48.7	57.0	66.4
Net revenue	173.2	242.9	63.2	81.7	73.1	61.6	279.6	72.7	99.0	86.9	71.5	330.1	377.3	428.3
Cost of technology revenue	74.3	103.1	27.0	32.3	29.3	26.5	115.1	33.0	38.7	34.2	31.0	136.8	151.6	166.6
Cost of marketing services revenue	5.4	4.1	1.0	1.7	1.8	1.6	6.2	1.2	1.5	1.5	1.6	5.7	6.7	7.5
Cost of Revenue	79.7	107.2	28.1	34.1	31.1	28.1	121.4	34.2	40.2	35.7	32.5	142.5	158.3	174.1
Gross Profit	93.5	135.7	35.2	47.6	42.0	33.5	158.2	38.6	58.8	51.2	39.0	187.5	219.0	254.2
Operating Expenses														
Sales and marketing	48.4	49.8	14.5	15.0	14.9	14.1	58.5	16.8	18.3	18.0	17.1	70.2	76.5	83.4
Research and development	31.7	58.2	14.9	16.2	15.0	14.8	60.9	16.1	16.2	17.4	17.7	67.3	73.1	78.7
General and administrative	29.0	29.7	9.8	10.4	8.9	8.8	38.0	10.2	11.1	11.5	11.7	44.4	50.0	53.4
Amortization of intangibles	13.8	18.5	4.0	4.1	4.0	4.0	16.1	3.7	3.7	3.7	3.7	14.8	6.6	6.6
Stock Compensation	14.5	11.1	1.8	1.4	1.3	0.8	5.2	0.7	2.0	1.6	1.7	6.1	7.4	8.4
Total Operating Expenses	137.4	167.3	45.1	47.0	44.2	42.5	178.8	47.4	51.3	52.1	51.9	202.7	213.6	230.4
Operating income	(43.9)	(31.6)	(9.9)	0.6	(2.2)	(8.9)	(20.5)	(8.8)	7.5	(0.9)	(12.9)	(15.2)	5.4	23.7
Adjusted EBITDA	(2.6)	15.9	1.1	11.9	9.4	2.9	25.2	\$2.6	\$20.4	\$11.7	\$0.3	35.0	54.2	\$75.6
Interest expense, net	(3.3)	(5.0)	(1.3)	(1.4)	(1.3)	(1.3)	(5.3)	(1.3)	(1.4)	0.1	0.1	(2.4)	0.6	0.8
Other (expense) income, net	(0.3)	1.2	(0.4)	(0.2)	0.8	0.3	0.5	(0.1)	0.2	0.0	0.0	0.1	0.0	0.0
Pre-tax income	(47.5)	(35.4)	(11.6)	(1.1)	(2.8)	(9.9)	(25.8)	(10.2)	6.3	(0.8)	(12.8)	(17.6)	6.0	24.5
Income taxes	1.5	2.4	0.9	0.9	1.1	(0.8)	1.9	0.8	0.8	0.8	1.0	3.4	7.2	9.8
GAAP Net Income	(49.0)	(37.9)	(12.4)	(1.9)	(4)	(9.1)	(27.3)	(10.9)	5.5	(2)	(13.8)	(20.9)	(1.2)	14.7
Accretion of convertible preferred	(15.6)	(25.8)	(6.9)	(6.9)	(7.1)	(7.3)	(28.2)	(7.4)	(4.4)			(11.8)		
NI to common stockholders	(\$64.6)	(63.6)	(\$19.3)	(\$8.8)	(\$10.9)	(\$16.4)	(\$55.4)	(\$18.4)	\$1.1	(\$1.6)	(\$13.8)	(32.7)	(1.2)	4.9
PF Net Income	(\$27.4)	(\$15.4)	(\$7.8)	\$2.4	\$0.4	(\$5.2)	(\$10.2)	(\$7.2)	\$10.2	\$2.7	(\$9.6)	(\$4.0)	\$11.1	\$27.6
GAAP EPS	(\$1.61)	(\$1.67)	(\$0.46)	(\$0.21)	(\$0.26)	(\$0.39)	(\$1.33)	(\$0.43)	\$0.03	(\$0.03)	(\$0.25)	(\$0.54)	(\$0.02)	\$0.24
PF EPS	(\$0.68)	(\$0.38)	(\$0.19)	\$0.06	\$0.01	(\$0.12)	(\$0.25)	(\$0.17)	\$0.18	\$0.04	(\$0.15)	(\$0.07)	\$0.17	\$0.42
GAAP Shares (diluted)	5.5	5.9	6.5	7.0	7.1	7.1	7.1	8.5	36.9	54.0	54.3	38.4	60.0	61.2
Non-GAAP Diluted Shares	40.1	40.5	41.7	41.7	41.7	41.7	41.7	43.1	57.4	64.0	64.3	57.2	65.1	66.4

Y/Y% Change														
Registration			22.8%	10.9%	7.5%	16.3%	13.5%	12.6%	15.2%	14.8%	13.4%	14.1%	12.3%	12.0%
Software			27.8%	10.9%	6.4%	(0.3%)	10.0%	26.2%	49.0%	40.0%	40.0%	39.2%	20.0%	19.5%
Technology			23.6%	10.9%	7.3%	12.6%	12.9%	14.9%	20.2%	19.0%	18.8%	18.4%	13.8%	13.3%
Marketing Services			29.5%	36.3%	40.2%	16.5%	29.4%	15.9%	28.2%	18.0%	5.0%	16.3%	17.0%	16.5%
Net revenue	70.0%	40.2%	24.3%	13.6%	11.1%	13.3%	15.1%	15.0%	21.2%	18.8%	16.0%	18.0%	14.3%	13.5%
Gross Profit	53.8%	45.1%	32.1%	14.2%	10.8%	13.4%	16.6%	9.7%	23.6%	22.0%	16.2%	18.5%	16.8%	16.1%
Adjusted EBITDA	31.0%	NA	NA	6.5%	6.2%	NA	59.0%	130.1%	71.9%	25.2%	(89.6%)	38.6%	55.1%	39.3%
Net Income	97.6%	(22.7%)	nm	(28.3%)	(44.4%)	(35.4%)	(28.0%)	(11.8%)	(385.0%)	(57.6%)	52.2%	(23.4%)	(94.2%)	(1312.4%)
PF EPS	234.2%	NA	24.1%	(72.4%)	(90.8%)	(2.7%)	(35.8%)	(11.0%)	211.7%	306.8%	19.7%	(71.8%)	(346.2%)	144.8%
Expenses - % of Revenue														
Cost of Technology	51.0%	49.0%	49.2%	45.4%	47.0%	53.8%	48.4%	52.3%	45.2%	46.0%	53.0%	48.6%	47.3%	46.0%
Cost of Marketing Services	19.6%	12.5%	12.3%	16.5%	17.0%	13.2%	14.8%	12.1%	11.0%	12.0%	12.0%	11.7%	11.7%	11.3%
Cost of Revenue	46.0%	44.1%	44.4%	41.7%	42.6%	45.6%	43.4%	47.0%	40.6%	41.1%	45.5%	43.2%	42.0%	40.7%
Sales and marketing	27.9%	20.5%	23.0%	18.3%	20.4%	22.9%	20.9%	23.0%	18.5%	20.7%	23.9%	21.3%	20.3%	19.5%
Research and development	18.3%	23.9%	23.6%	19.8%	20.6%	23.9%	21.8%	22.1%	16.3%	20.0%	24.7%	20.4%	19.4%	18.4%
General and administrative	16.8%	12.2%	15.5%	12.8%	12.2%	14.3%	13.6%	14.0%	11.2%	13.2%	16.4%	13.5%	13.3%	12.5%
Total Operating Expenses (ex SBC)	63.0%	56.7%	62.1%	50.9%	53.2%	61.2%	56.3%	59.1%	46.0%	53.9%	65.0%	55.1%	52.9%	50.3%
Tax rate	-3.2%	-6.9%	-7.4%	-78.5%	-38.4%	8.5%	-7.5%	-7.8%	12.5%	-53.9%	51.7%	-19.2%	120.3%	40.0%
Margins														
Gross Margin	54.0%	55.9%	55.6%	58.3%	57.4%	54.4%	56.6%	53.0%	59.4%	58.9%	54.5%	56.8%	58.0%	59.3%
Operating Margin	-25.4%	-13.0%	-15.6%	0.7%	-3.1%	-14.5%	-7.3%	-12.2%	7.6%	-1.1%	-18.1%	-4.6%	1.4%	5.5%
Adj. EBITDA Margin	(1.5%)	6.5%	1.8%	14.5%	12.8%	4.7%	9.0%	3.5%	20.6%	13.5%	0.4%	10.6%	14.4%	17.6%
Incremental EBITDA margin	(0.9%)	26.5%	37.4%	7.4%	7.5%	47.6%	25.5%	15.2%	49.2%	17.1%	(26.3%)	19.3%	40.8%	41.8%
Net income margin	-28.3%	-15.6%	-19.6%	-2.4%	-5.2%	-14.8%	-9.8%	-15.0%	5.6%	-1.9%	-19.4%	-6.3%	-0.3%	3.4%

Source: Company reports and ThinkEquity LLC estimates



COMPANIES MENTIONED IN THIS REPORT:

Company	Exchange	Symbol	Price	Rating
The Active Network, Inc.	NYSE	ACTV	\$13.31	Buy

Important Disclosures

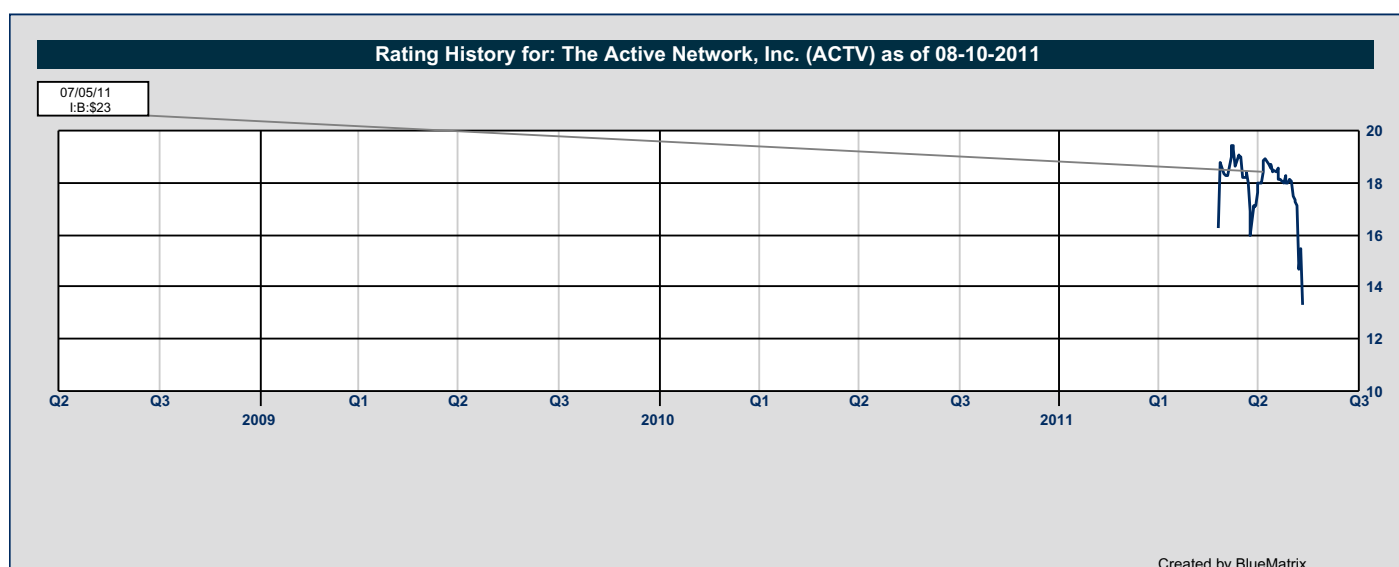
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ThinkEquity LLC

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			Count	Percent
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