

From: Brant Barton
Sent: Thursday, April 21, 2011 8:10 PM
Subject: CONFIDENTIAL - Reasons to consider PowerReviews . . .

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA

TRIAL EXHIBIT **GX0513**

13-CV-0133-WHO

Date Entered _____

By _____ (Deputy Clerk)

. . . as our first acquisition.

First, we've flirted with this idea in the past, but I don't think we've objectively considered the Pros/Cons of acquiring them. Read on . .

Second, I've gotten Mike Dodd's take on each of OMTR's five acquisitions that he led, and their most accretive, by far, was Visual Sciences, a primary competitor. Different circumstances, I know, but I am just making the point that taking out one of your biggest competitors can be game-changing vs. doing a bunch of tuck-ins that don't really aggregate meaningful market power/share.

Third, what would Omniture do? I ask myself this question often, since they really set the bar for aggressiveness in this area. Given the list of Pros/Cons below, I would bet 10 to 1 that Omniture would acquire, if they were in our position.

Last, yes, it goes without saying, that it's all a function of price, but please set that point aside for a moment.

Pros

- **Elimination of our primary competitor in both the US and Europe.** An expected impact of this consolidation is relief from the price erosion that Sales experiences in 30-40% of deals, per Osborne, of up to 15-30%. In addition, the market will place a premium on us having such a dominant market position, which is a powerful competitive moat.
- **Marquee customers.** Staples, REI, Toys 'R Us, Drugstore.com, Orbitz, Diapers.com, B&H, Ace Hardware, Radio Shack, RedCats, TicketsNow, Brookstone, etc. Currently, PR claims 4700+ customers, most of which are SMB, but they still have some very big names.
- **Speed.** Yes, we will eventually take all of PR's marquee customers, but if that takes 3 years, it's too damn slow. Time is a very important axis that we sometimes neglect.
- **Low risk of customer attrition.** Unlike Omniture's acquisition of VisualSciences, in which disgruntled VS customers could easily switch to Coremetrics, WebTrends, Google Analytics, or several others, we will be able to retain an extremely high percentage of PR's customers due to scarce/low-quality alternatives. This is also a much larger base of customers upon which to calculate our retention rate, by #, less so by \$.
- **SMB/self-service offering.** Most of PR's 4700+ customers are SMB. We could migrate their Tier 1 customers to our platform and run our entire SMB business on their platform with a dedicated R&D team to support it.
- **Their technology doesn't suck.** It doesn't. In fact, it may be better suited to OEM and Reseller arrangements, such as their partnership with ShopZilla in Europe and their partner in Japan.
- **Disruption in Europe and beyond.** We take over the ShopZilla partnership, their partnership in Japan, and we replicate these models in other geos that we don't want to invest in directly.
- **GSI Commerce.** In spite of our progress selling GSI customers, they are still a major thorn in our side and our integration of R&R into the GSI platform still isn't complete. PowerReviews doesn't have this particular challenge with GSI.
- **Bay Area office and team.** Obviously, we'd evaluate their talent, but I suspect that there is a competent core of R&D talent that we would want to retain given our FY12 hiring needs.
- **Patents.** They have two patents and others pending. The first was for their PowerTag functionality. This patent influenced the design of our tagging features, as we had to step around it. The second was announced today, for their SaaS delivery model. I don't have details yet on this one, but they made a big announcement to their customer base.
- **Preemptive defensive strategy** that prevents them from being acquired by a larger competitor that could use their scale and reach to disrupt us (Salesforce.com, Adobe, Oracle, Lithium, etc.).
- **Data.** Buzzillions claims to have over 15 million reviews. Let's assume that number is 80-90% of the total number of reviews that PR has collected across all clients, to date, since some clients choose not to syndicate to Buzzillions. Even in the 15-20 million range, that's a lot of additional data for our platform and Customer Intelligence offering.
- **Network.** They have several "lynchpin" nodes as clients, including Drugstore.com, Diapers.com, Staples, and REI, that we needed yesterday for clients like P&G, 3M, etc.
- **They aren't that large.** My guess is that they have less than 100 people, which makes integration an easier proposition.

Cons

- **Valuation.** Per CrunchBase, they've raised \$32+ million, not including the most recent round which was debt, I believe. Silicon Valley investors. Social. Etc. But, an opportunity to ride the BV train could really soften them up. Obviously, nasty financials are in general a potential Con. We'll only know the real story on this by engaging with them.
- **Buzzillions.com.** We could negotiate to acquire just the software business, allowing current Buzzillions.com customers to continue syndicating their content to the portal. Or, we continue to operate it as a foil to review aggregators such as a la Test, TestSeek, ReviewSearch.com, etc. Or we just shut it down.
- **Perception.** They are clearly the "loser" in our market in the eyes of most customers and partners and certainly our employees, but I think the valuation premium for market/customer consolidation outweighs this.
- **Pigeonhole effect.** We already battle the perception that we're just a "Ratings & Reviews" company. If we acquire the other "Ratings & Reviews" company that everyone knows, do we get pigeonholed even further?
- **Customer migration.** Unlike a smaller tuck-in integration, we'll have to manage a pretty large-scale customer migration effort here. However, a significant number of their customers could continue to run on their platform, if it became our SMB offering. End of the day, we get the data for Customer Intelligence, which is a separate product altogether.

In summary, I think we need to stack hands on whether this is legitimately worth pursuing. My vote is yes. If the majority vote is yes, including Board, then let's engage them ASAP and figure out quickly whether the financials are in our favor.

I look forward to hearing some feedback.

Thanks,
Brant

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