TechTarget, Inc.

NASDAQ:TTGT

Analyst: Jarret Reaume
Sector: Technology

BUY

Price Target: $13.91

Key Statistics as of 4/16/2015

Market Price:	$11.25
Industry:	Internet Software and Services
Market Cap:	$370.25 M
52-Week Range:	$6.27 – $12.63
Beta:	2.51

Thesis Points:

- Unique Content Model
- IT Deal Alert Growth Drives Value
- Zero Debt Position
- Margin Improvements Will Improve Free Cash Flows
- Online International Growth Will Emerge As New Value Driver

Company Description:

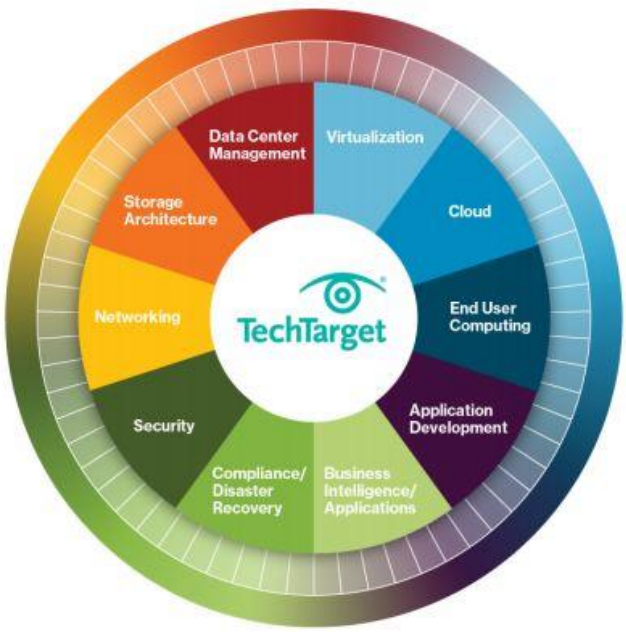
TechTarget, Inc. provides specialized online content and brand advertising that brings together buyers and sellers of corporate information technology (IT) products and services. It sells customized marketing programs which enable IT vendors to reach corporate IT decision makers who are researching specific IT purchases, as well as provides conferences, seminars, and other in-person events through its websites. The company also operates an integrated content platform that consists of a network of approximately 150 websites that focus on media groups including security, networking, storage, data center and virtualization technologies. In addition, it enables registered members to conduct their pre-purchase research by accessing vendor content, such as

Thesis

TechTarget, Inc. is a growing company that looks to create value with continued improvement in margins and free cash flows. The firm is in an industry where barriers to entry are high due to a unique content model. The company provides many services to companies that are in the information technology buying process and need help choosing the right products. TechTarget, Inc.'s vast assortment of content is unrivaled by any other company in its industry. Combine that with a large audience and the result is a company with a bright future of value creation. The market does not yet realize the potential of this company because there is no company like it and the firm has not yet hit its prime. There is a serious opportunity to capitalize on the low price of the stock at $11.46.

Unique Content Model

The vast collection of content that TechTarget, Inc. boasts is unlike any other company. There are over 5,000 topics covered that can satisfy any company's



5,000 topics covered

needs. With 150 full-time editors, 700+ outside experts, and thousands of users generating peer content, there is always ample information for any type of technology buyer.

The content on TechTarget would be meaningless if there was no audience to pay for it and use it. Fortunately, TechTarget has the largest IT audience on the web and is only growing. As of February 2015, the company has over 15.3 million registered users worldwide. This number is growing and does not account for all of the people viewing the site. 94% of people who view the site are not registered yet which gives the amount of registered users room to grow.

With over 16 million monthly visitors and over 500,000 different companies researching tech products on TechTarget, the market is clearly large. The competition of companies to have the best technology will drive even more companies to research on TechTarget. Many of the best companies in the world are already customers of TechTarget, which will only attract competing companies to do the same. The image below shows the caliber of companies that use TechTarget. Clearly, it is a very prestigious list that sets up the company to grow

due to other big companies converting to TechTarget. The market has not priced this factor because it is hard to predict exactly how many companies will adopt TechTarget's services. However, there is reason to believe the companies will switch because of the aforementioned content model. If firms see that the best companies like Google use the services and there is no other place that can provide the same content, then it will be an easy to decision to register with TechTarget.

Not only can TechTarget attract major companies, but it can also retain them and make the business relationship extremely lucrative for both parties. TechTarget's focused, content-rich platform results in great benefits for both customers as well as advertisers. Any business that partners with TechTarget can expect to benefit tremendously. That is why the company's subscribers have very high renewal rates.

IT Deal Alert Growth Drives Value

IT Deal Alert is an innovative suite of enablement tools and services from TechTarget that addresses the distinct role-based needs of sales, marketing, and data science teams by providing real-time insight and in-depth data about IT buying teams worldwide. TechTarget plans to have existing customers adopt Deal Alert in the near future because of the economic value it will add. The service is extremely profitable as shown by its $16.9 million revenue from just 196 customers. TechTarget hopes to get Deal Alert to 1,200 customers so that it will become a $100 million revenue stream. The company believes that it can convince existing customers to adopt Deal Alert and renew existing customers at a high enough rate to make this happen. The chart below shows the opportunity this unique service presents.

The market is not as optimistic about the prospects of Deal Alert as TechTarget is; and that is a reason why the stock is undervalued. No other company has a service like this, so there is reason to believe TechTarget could meet its expectations or even surpass them. If it can, then the stock should increase greatly. During the Q4 2014 earnings conference call, nearly every question centered on IT Deal Alert and its expectations. CEO Greg Strakosch made it very clear that he is optimistic about this service. He believes that it should continue to grow and create value as the number of customers increase. Since variable costs are low for this service, higher volume of customers will create value because margins will increase. The company's management team can be trusted to have the firm's best interest in mind because the CEO and the Executive Director of Product Innovation both founded the business. This fact means it is likely that they prioritize company performance over personal compensation.

Zero Debt Position

TechTarget, Inc. has not held any long-term or short-term debt for more than five years. It is very beneficial for a growing company such as this one to have zero debt because it increases flexibility for the firm. The company can invest in new technologies or projects and not have to worry about defaulting on interest payments or becoming too distressed. Also, it saves money due to the lack of interest payments and assures the company to have a strong debt rating.

It may be prudent in the future for TechTarget to issue some debt because it could possibly lower the weighted average cost of capital since the cost of debt tends to be lower than the cost of equity. However, at this time, retained earnings prove to be the cheapest method of financing the company's expenses. The firm has only had to issue equity in the secondary market once since its initial public offering (IPO) in 2007. Since it did not have to issue debt to raise capital, it is clear that the company is in a solid financial state. It does not appear that TechTarget will be forced to issue debt anytime soon, so the firm will be able to generate free cash flows without tying up any earnings in interest payments. This strategy will assist TechTarget in continuing to grow organically and create shareholder value.

Margin Improvements Will Improve Free Cash Flows

TechTarget has proven to be efficient in having operating margins that generate free cash flows. The company has been able to generate cash in its last five years consecutively with margins that have fluctuated slightly, but look to improve. For example, the company's EBITDA margin has hovered around double digits for between FY 2010 and FY 2013. However, in 2014, TechTarget was able to make a 12.51% EBTIDA margin. EBITDA margins are projected to increase in the future, but not by enough as they actually should. This is where the market is underestimating the potential of TechTarget.

As mentioned previously, the number of customers and the services they purchase will increase more than the market expects in the near future. Services like IT Deal Alert that have already been implemented will cost

TechTarget far less than they will generate in revenue. Therefore, all operating margins will increase, and not just by a small amount. It is an optimistic view, but there is reason to believe that companies will desire this service due to the fact that many major players in the technology industry use it. A handful of the companies are shown in an image on the second page of this report. It is highly likely that several other major technology buyers will adopt TechTarget's services like IT Deal Alert.

An improvement in margins will help the firm generate free cash flows. As shown below, TechTarget has done well to generate cash flows in from 2011 until now.

Free Cash Flow	11.4	14.5	3.8	14.4	14.4

These numbers will look very small compared to what TechTarget should generate in the near future. With improved margins, a wider customer base, and services that are unmatched by any other company in the industry, free cash flows will double the 2014 number within a few years. Bloomberg analysts project free cash flows to reach $23.1 million by 2016, which is a low estimate. TechTarget will be able to outperform market expectations once again and the stock price will increase.

Online International Growth Will Emerge as New Value Driver

TechTarget's investor presentation highlights the fact that more than 50% of the enterprise IT market is outside of the United States. The company's international presence has been slowly growing, but there is an incredible amount of room for improvement. In 2009, TechTarget only had $4 million in revenue from the online international segment, but had $28 million in 2014.

TechTarget believes it can capitalize off of this in the future by doing business internationally just as it does domestically. In 2009, the company switched its business model from partnering with international buyers to doing direct business with them. The growth from 2009 until now shows that there is serious potential to generate revenue and create value this way.

According to TechTarget, margins are consistent with the US, so there will be little to no gain or loss in productivity when dealing with international customers. The only change will be an increase in volume which should create value as domestic margins improve. The tailwind shift from traditional media to online media in international countries is several years behind the United States, so there is even more of an opportunity to capitalize on this market. As other nations become more accustomed to online media, more customers will come to TechTarget to aid in the technology buying process. The market seems to not realize this phenomenon yet, so if the company can generate more free cash flows, shareholder value will be created. This is yet another reason why TechTarget stock is a recommended buy at this point.

Conclusion

TechTarget, Inc. is a growing company that has an extremely unique array of services that aren't matched by competitors. It has a service called IT Deal Alert that looks to create tremendous value for the firm by attracting new customers and retaining existing ones at a profitable rate. The fact that the company has not had any debt for the past five years shows that it is not reliant on outside sources to fund its projects and obligations. In addition, the financials for the company will improve more than they are already expected to. Also, the online international segment presents an interesting opportunity for even more value to be created. All of these reasons make TechTarget, Inc. a recommended buy at a price of $11.6

Siena Market Line
3rd week of April 2015

CENTER FOR GLOBAL FINANCIAL STUDIES

TechTarget, Inc.	TTGT	Analyst	Current Price	Intrinsic Value	Target Value	Divident Yield	Target Return	NEUTRAL
		Jarret Reaume	$11.46	$13.68	$13.91	0%	1-y Return: 21.4%	

General Info

Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	Feb-11-2015
Next earnings date	5/5/2015

Market Data

Enterprise value	$352.41
Market Capitalization	$2,032.29
Daily volume	0.25
Shares outstanding	32.91
Diluted shares outstanding	34.64
% shares held by institutions	99.58%
% shares held by insiders	27.83%
Short interest	1.07%
Days to cover short interest	3.97
52 week high	$12.63
52-week low	$6.14
5y Beta	1.93
6-month volatility	31.59%

Peers	Market Cap.
QuinStreet, Inc.	$259.39
TrueCar, Inc.	$1,303.84
Angie's List, Inc.	$328.86
Global Sources Ltd.	$162.51
Synacor, Inc.	$67.75
Tarsus Group plc	$228.92
Yelp Inc.	$3,552.74
Autobytel Inc.	$123.43
Marin Software Incorporated	$242.06

Current Capital Structure

Total debt/market cap	0.00%
Cost of Borrowing	#DIV/0!
Interest Coverage	8.2x
Altman Z	8.19
Debt Rating	AAA
Levered Beta	1.10
WACC (based on market value weights)	8.61%

Management

Professional	Title	Comp. FY2012	Comp. FY2013	Comp. FY2014
Strakosch, Gregory	Co-Founder, Chairman and Chief	$3,126,489	$602,000	$0
Beam, Kevin	President	$2,230,620	$442,000	$0
Hawk, Don	Co-Founder and Executive Directo	$1,327,758	$1,185,000	$0
Kelliher, Janice	Chief Financial Officer, Principal A	$595,027	$392,600	$0
Cotoia, Michael	Chief Operating Officer	$2,230,620	$442,000	$0
Freedman, Jane	Vice President and General Couns	$0	$0	$0

Historical Median Performance

	TTGT	Peers	Industry	All U.S. firms
Growth	6.5%	13.1%	13.8%	7.4%
ROIC	7.9%	2.3%	15.1%	14.3%
NOPLAT Margin	19.0%	3.9%	10.7%	10.4%
Revenue/Invested Capital	0.42	0.58	1.41	1.37
Excess Cash/Rev.	53.5%	34.6%	13.5%	12.9%
Total Cash /Rev.	53.5%	43.0%	12.3%	15.2%
Unlevered Beta	1.76	1.09	1.12	0.95
TEV/REV	2.0x	6.1x	3.9x	2.5x
TEV/EBITA	7.5x	154.7x	17.5x	13.1x
PE (normalized and diluted EPS)	16.0x	137.3x	33.9x	23.5x
P/BV	0.8x	7.4x	2.5x	2.2x

Past Earning Surprises

	Revenue	EBITDA	Norm. EPS
Last Quarter	5.6%	33.2%	11.1%
Last Quarter-1	5.7%	21.8%	16.7%
Last Quarter -2	2.8%	24.1%	-12.5%
Last Quarter -3	8.6%	428.3%	33.3%
Last Quarter -4	0.3%	-1.4%	0.0%

Non-GAAP Adjustments in estimates computations

Operating Leases Capitalization	100%	Straightline	10 years
R&D Exp. Capitalization	100%	Straightline	10 years
Expl./Drilling Exp. Capitalization	0%	N/A	N/A
SG&A Capitalization	20%	Straightline	10 years

Proforma Assumptions

Money market rate as of today	0.54%
Annual increase (decrease) in interest rates	0.1%
Yield Spread accelaration	1.2
Marginal Tax Rate	37.5%
Risk-Free rate	2.6%
Tobin's Q	0.80
Op. Cash/Rev.	7%
Growth in PPE	NPPE Growth tapers to maintenance until
Long term Growth	8.0%
Base Year Unlevered Beta	is equal to 1.09
Long term Unlevered Beta	1.09

Forecast

Period	Rev. Growth	Adj. Op. Cost/Rev	Invested Capital	NOPLAT Margin	ROIC	WACC
LTM	20.0%	80.6%	$251.42	18%	7.8%	8.6%
NTM	18.8%	80.5%	$208.64	17%	8.4%	8.4%
NTM+1	17.6%	80.5%	$224.39	17%	11.9%	8.4%
NTM+2	16.4%	80.4%	$240.78	17%	12.9%	8.5%
NTM+3	15.2%	80.4%	$257.59	17%	13.9%	8.5%
NTM+4	14.0%	80.3%	$274.59	17%	14.9%	8.6%
NTM+5	12.8%	80.2%	$291.50	17%	15.8%	8.7%
NTM+6	9.7%	80.2%	$306.13	17%	16.4%	8.7%
NTM+7	9.0%	80.1%	$320.67	17%	17.1%	8.8%
NTM+8	8.5%	80.1%	$335.27	17%	17.7%	8.9%
Continuing Period	8.0%	80.0%	$197.16	12%	10.0%	9.0%

Valuation

Period	Invested Capital x (ROIC-WACC)	Total Debt	Other non-interest bearing claims	Shares Outstanding
LTM	$0.00	$0.00	$19.40	32.91
NTM	-$0.08	$0.00	$11.55	32.91
NTM+1	$7.30	$0.00	$5.96	32.91
NTM+2	$10.02	$0.00	-$5.96	32.91
NTM+3	$13.01	$0.00	-$10.51	32.91
NTM+4	$16.25	$0.00	-$17.60	32.91
NTM+5	$19.65	$0.00	-$27.68	32.91
NTM+6	$22.33	$0.00	-$42.86	32.91
NTM+7	$25.28	$0.00	-$60.87	32.91
NTM+8	$28.42	$0.00	-$81.71	32.91
Continuing Value	$299.07			

Pricing Model

DCF (Weight = 100%)	Relative (Weight = 0%)	Distress (Weight = 0%)	Weighted Average Price Per Share
$14.43	$14.12	$13.38	$14.43
$14.48	$16.19	$12.97	$14.48
$15.78	$19.30	$14.23	$15.78
$17.05	$22.90	$15.49	$17.05
$18.15	$26.54	$16.56	$18.15
$19.32	$30.48	$17.65	$19.32
$20.40	$34.68	$18.75	$20.40
$21.53	$38.48	$19.84	$21.53
$22.68	$42.44	$20.93	$22.68
$23.49	$46.59	$21.98	$23.49

Monte Carlo Simulation Assumptions

	Base	Stdev	Min	Max	Distribution
Revenue Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Op. Costs Variation	**0**	**10%**	**N/A**	**N/A**	**Normal**
Country Risk Premium	**6%**	**N/A**	**5%**	**7%**	**Triangular**
Long term Growth	**8%**	**N/A**	**3%**	**14%**	**Triangular**

Monte Carlo Simulation Results

	Intrinsic Value	1y-Target
Mean est.	$14.43	$14.48
σ(ε)	$0.25	$0.19
3 σ(ε) adjusted price	$13.68	$13.91
Current Price	$11.46	
Analysts' median est.		$13.90