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## **“Virtual Land” -- The Next Frontier**

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### **Mercanti Group Predicts Large, Profitable and Growing Investment Opportunities in the Virtual Land Ecosystem; Early Entrants Rapidly Expanding**

**SEATTLE, WA**, December 27, 2006 – Just as open land led settlers expanding westward in great numbers, “virtual land” on the Internet continues to proliferate and increase in value as consumers and businesses embrace the medium and transfer more of their daily activities online, according to a recent report by The Mercanti Group, a boutique investment bank headquartered in Minneapolis, with offices in Los Angeles, New York and Seattle. Forward-thinking investors and companies that analyze this shift in behavior and emerging landscape and develop competencies as brokers, owners and marketers of virtual land will be handsomely rewarded, Mercanti concludes.

“We view the virtual land and traffic ecosystem as a collection of ‘virtual properties,’ enhanced by the activity of Internet users displaying many traits similar to those of the traditional physical real estate market,” said Bryce Lane, a Principal in Mercanti’s Seattle office and author of the report. “However, virtual land offers a more efficient venue for marketing and selling activities. A key difference obviously is that commercial traffic to virtual land is generated via computers and websites. Still, the mechanics that go into the valuation, trading and ownership of virtual land are increasingly similar to the ‘offline’ real estate market.”

A full copy of the report, published in the December issue of Mercanti’s *Chronicle* newsletter, is available at [www.mercantigroup.com/research](http://www.mercantigroup.com/research).

#### **Rapidly Expanding Market for Virtual Land**

The total number of registered web domains currently exceeds 100 million, representing growth of roughly 100 percent in the past 18 months and more than 800 percent since 2000, Lane points out. Total online consumer spending is predicted by experts to reach \$170 billion in 2006, as businesses continue to utilize the Internet for a variety of revenue generation and cost control initiatives. Less than 30 percent of the 14.7 million home-based businesses in the U.S., however, owned and maintained a website in 2005.

“We predict that the likely market saturation level for businesses owning websites will ultimately exceed 90 percent,” said Lane. “This activity clearly would harbingers continued growth in e-commerce activity and further increase the value of virtual land.”

## Industry Segments and Opportunities

The Mercanti report identifies four primary industry segments within the virtual land and web traffic ecosystem:

- **Domain Registration** -- Companies in this segment provide an entry point to domain ownership, facilitate registration and traffic routing functions. The two most prominent players in the segment, says Mr. Lane, are GoDaddy and VeriSign, which offer low cost solutions and then upsell value-added services. A number of related private registry M&A transactions have taken place, according to the report, including the acquisitions of eNom, Inc. and Bulk Register, LLC by Demand Media, in 2006.
- **Domain Brokerage** -- Brings together buyers and sellers of domain names to facilitate transactions, collecting brokerage fees typically around 10 percent. Recent brokered transactions have resulted in domain sale prices of millions of dollars, including diamond.com (\$7.5 million) and cameras.com (\$1.5 million). There currently is a trend to combine domain brokerage with marketing services and owned traffic centers such as advertising networks. Recent transactions include the acquisition of Afternic.com, Inc. by NameMedia, Inc. and the acquisition of Moniker.com by Kanoodle and parent, Seevast.
- **Domain Parking and Traffic Optimization** -- Provides monetization opportunities for domain owners through relationships with search and network traffic providers. This segment is much like a hybrid between a real estate agent, property management firm and advertising agency. Providers identify high quality domain owners and help monetize the site by leasing out open space, while at the same time establishing partner relationships that drive increased web traffic.
- **Domain Investment** -- Business models in this segment include Pay Per Click (PPC) arbitrage, organic advertising optimization, and domain sales. Well funded platforms that acquire and optimize owned domain portfolios will continue to prosper and offer superior risk adjusted returns, Mercanti predicts. In 2006, the web media company Demand Media raised more than \$200 million in growth capital from private equity investors. Internet REIT also is funded by several prominent institutional investors, including Maveron, the investment vehicle of Starbucks' founder Howard Shultz.

The Mercanti report also points to five key trends in the virtual land market that it predicts will drive business activity:

- **Market Fragmentation** -- Boutique customer and client-centric companies are winning business from larger competitors. For example, Don't Blink Media, Inc. leverages its search marketing and trend analysis expertise to serve the online marketing needs of several notable clients who claim larger players lack strong domain knowledge and customer service. The next several years will likely spur consolidation and new traffic optimization technologies and services in addition to continued significant funding efforts.
- **Channel Efficiency and Pricing** -- As search activity grows in importance, the ecosystem surrounding intent-based advertising continues to prosper. Internet advertising, overall, also reached a new record of \$4.2 billion for Q3 2006, a corresponding year-over-year increase of 33 percent. The market will continue to support higher prices as the demand for inventory continues to rise faster than the supply.

- **Arbitrage Opportunities** -- Domain (land) owners continue to monetize their properties through advertising facilitated by domain parking companies and search providers -- in similar fashion to property development and leasing in the traditional real estate industry. Recent quality control initiatives at Yahoo! and Google have also sought to reduce the influence of manufactured or fraud-based traffic. This will be a long-term net positive for the industry and leading players.
- **Strong Economics and Leveragable Business Models** -- Leading companies continue to develop technology that improves scalability to address the growing traffic monetization needs of businesses and consumers. Internet-centric business models with low cost structures and rigorous customer acquisition, conversion and retention programs extend leverage. Google is a solid benchmark of the revenue, growth and profit potential of virtual land and traffic industry participants.
- **New Regions and Platforms** -- Worldwide there are 2-3x more mobile devices than personal computers connected to the Internet. As global Internet penetration continues to grow, activity levels climb and traffic monetization opportunities follow. While the U.S. still prefers to access the Internet via the personal computer, other countries continue to pave the way in innovation and usage on mobile devices.

#### **About The Mercanti Group**

The Mercanti Group is a results-oriented boutique financial advisory firm that embraces a fierce commitment to client service and provides creative Merger & Acquisition, Capital Raising and Strategic Advisory solutions to small and middle market companies, private equity firms and individual business owners in the consumer, health care, technology, business services and manufacturing industries. Mercanti offers companies the expertise and capabilities of a large investment bank with the focus, attention and energy of a small entrepreneurial firm. Mercanti has offices in Minneapolis, Los Angeles, New York and Seattle. Mercanti also is strategically affiliated with Marquette Financial Companies, a diversified financial services company which is a part of the Pohlad family holdings. If you would like more information on The Mercanti Group, please visit the Web at [www.mercantigroup.com](http://www.mercantigroup.com), or contact a Mercanti professional at 612.333.0130 (Minneapolis); 310.444.0130 (Los Angeles); 212.883.0130 (New York) or 425.943.7280 (Seattle).

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