

Company Report

IZEA INC.

The Next Social Media Leader

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IZEA INC. (OTC:QB - IZEA - \$0.645)

Industry: Social Media

Rating: Speculative Buy

COMPANY SNAPSHOT

IZEA, Inc. is the world leader in social media sponsorship, operating multiple marketplaces including, *SocialSpark*, *SponsoredTweet*, *WeReward*, and *IZEAMedia*. The Company connects advertisers with social media influencers, helping them monetize their social media presence. The company has completed over three million social media sponsorships for customers ranging from small local businesses to Fortune 50 organizations. IZEA has over 700,000 registered social media publishers and over 50,000 brand partners.

KEY STATISTICS

Price as of 5/11/12	\$0.645
52 Wk High – Low	\$5.00 – 0.16
Est. Shares Outstanding	38.7M
Market Capitalization	\$25.0M
3 Mo Avg Vol	207,000
Exchange	OTC:QB

COMPANY INFORMATION

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INVESTMENT HIGHLIGHTS

Social media pioneer IZEA is the world leader in social media sponsorships (SMS), a critical component of Internet advertising. Industry estimates suggest that SMS could reach \$3.1 billion by 2014 and as the only company that has mastered SMS aggregation and monetization, IZEA stands to reap huge rewards.

IZEA's metrics are staggering. Under the SMS format, companies compensate social media publishers to share sponsored content within their respective social networks. To date, IZEA has recorded 3 million social media sponsorships. Clients range from Coca-Cola, AT&T, Kraft, Hilton, Microsoft, and other household names to mom and pop businesses.

With a first-mover advantage, IZEA is able to aggregate, marry and monetize publishers with brand partners through its virtual marketplaces. These include *SocialSpark* geared to large advertisers, *Sponsored Tweets* which connects consumers directly with advertisers and *WeReward* which is a social-mobile and incentive-based or rewards platform.

IZEA has a killer management team. Not only is the founder Ted Murphy a visionary and solid operator but Mr. Murphy has been named a finalist in the Maverick of the Year category in The 2012 American Business Awards, which is the nation's premier business awards program.

Expect huge growth this year. Revenue for the company is expected to double over fiscal year 2011 to \$8.6 million, fueled by its May 2012 sales pipeline of \$9.1 million that has increased by 50% since January 2012 and doubled since May last year.

Our talks with leading ad agencies confirm that the SMS market may be the single most key method of advertising over the next 3-5 years. With its huge reach and first-mover advantage, IZEA is poised to be the next major social media player and is a great alternative to buying Facebook. We rate these shares Speculative Buy.

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COMPANY OVERVIEW

Tracing its roots to 2006, IZEA was founded in by the entrepreneur and now Chairman and CEO, Ted Murphy. IZEA is a world leader in social media sponsorships ("SMS"), a rapidly growing and increasingly key segment within social media. Under the SMS format, companies compensate social media publishers to share sponsored content within their respective social networks.

With a first-mover advantage, IZAE is the only Company that has truly been able to aggregate and monetize the SMS market on a large scale basis. As a result, IZEA has recorded 3 million social media sponsorships with clients ranging from Fortune 50 firms like Coca-Cola (NYSE – KO), AT&T (NYSE – T), Kraft (NYSE – KFT), Hilton, Microsoft (NASDAQ - MSFT), and other household names, to mom and pop businesses.

SMS is the best way for those who post to social media outlets to 'monetize' their publications through advertisement, and IZEA, as the linchpin, provides the connection and platforms between advertisers and publishers. There is no denying the growth in the social media industry, with status updates, tweets, pictures, tags, videos, shares, and blogs as outlets for people to communicate instantly. IZEA is banking on and leading the growth in this arena. Going forward, corporations are likely to consider these media outlets the new "billboard" and the blogosphere finally has a steady source of income from its posts.

The Food Chain

IZEA's platforms for SMS enable the publisher and advertiser to share in the power and growth potential of the spheres of influence found in the form of the blogger/publisher. A number of studies have shown that women and the under-30 crowd in particular are likely to strongly follow the advice of peers or those who they view as influencers in media or entertainment. Publishers are provided IZEA tools to enable them to achieve maximum earnings potential and reach. Advertisers enjoy the low cost feature and direct line into the consumer that this model offers. IZEA, guarantees posts for advertisers, offers performance or use-only pay structures, has traceable tools to report site traffic and other metrics, and is scalable, with over 700,000 users to date. One unique program the company is offering is a 'casting call' for what they call *influencers*. These influencers include celebrities, athletes, and renowned people in politics, business, etc. Influencers, receive premium support and a guaranteed monthly revenue stream. Just like IZEA has been able to attract household names on the advertiser front, so too has it attracted celebrity influencers as part of its campaigns including Kim Kardashian, Rainn Wilson, Diddy, Bethenny Frankel, and others. IZEA has several platforms to accommodate the needs and model of both the advertiser and the publisher, with benefits and capabilities for niche small users and mass media productions.

Behind the Numbers

IZEA might just be the company with the biggest reach on the Web that you "never heard of". However, with metrics such as the one found in the box below, that is about to change, along with a likely huge rise in market value in the near term.

The IZEA Metrics	
Number	Description
3 Million	Social Media Sponsorships (SMS)
220 Million	Monthly SMS Impressions
70 Million	Traditional Ad Impressions
700,000	Registered Social Media Publishers
50,000	Brand Partners

Image I. Key Metrics That Illustrate the IZEA's Social Media Reach
Source: IZEA Inc.

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The Revenue Model

IZEA derives over 80% of its revenue from advertisers for the use of its network of social media publishers to fulfill advertiser sponsor requests for a blog post, tweet, click, purchase or action. The balance is derived from various service fees charged to advertisers and publishers, including ad campaign management to advertisers and upgraded visibility fees to publishers.

THE PLATFORMS

By operating through these marketplaces, IZEA is able to effectively aggregate, monetize and scale its business that can ultimately rival the size of behemoths such as LinkedIn and Facebook.

SocialSpark: This is the Company's premier blog platform and is tailored to the needs of large advertisers. This platform has tools to allow the advertiser to develop blogs based on several criteria, such as relevancy, traffic, and demographic data. It also is a 'one click' tool that enables advertisers to create targeted, large scale social media campaigns and watch them real-time.

SponsoredTweets: This clever segment is a virtual market that connects consumers directly to advertisers in sponsored conversations via Twitter. The advertisers pay for the Twitter ads through cost per tweet or cost per click. This platform is used by advertisers to pick celebrities to use in campaigns

WeReward: An innovative, social-mobile incentive-based platform provides reward programs and drives purchases and better knowledge of customers for advertisers, which like many CRM (Customer Relationship Management) program, has proved to be invaluable. This platform can be downloaded to an iPhone or Android device, and consumers are able to earn 'points' at over 15 million U.S. businesses.

PayPerPost and InPostLinks: These (legacy) platforms were initially designed to enable optimal search engine utilization, connect advertisers directly to bloggers to develop posts and select ad placements on the site. Both allow advertisers to pay bloggers with cash in exchange for content and links back to advertiser websites.

IZEAMedia: A new platform launched in November 2011, IZEAMedia allows clients to place targeted display advertising next to sponsored blog content, and is now delivering over 70 million impressions per month.

Staree: This is a mobile platform still under development, which will aid online influencers to more effectively monetize their personal social multimedia content, such as status updates, photos, and videos through SMS and display advertising.

COMPETITIVE ADVANTAGES

IZEA has a number of advantages over other players in the market.

- First mover advantage.
- Broad array of platforms.
- History of success.
- Massive list of advertisers, publishers and impressions.
- Public company exposure.
- Celebrity influencers and publisher spheres of influence.
- Strong front-end and back-end, along with payments system.
- Strong, proven management team.

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MANAGEMENT

Ted Murphy, Founder, Chief Executive Officer

Edward 'Ted' Murphy is a dynamic serial entrepreneur who has founded six companies since 1994. Today he is Founder, CEO and Chairman of the Board, of IZEA, the global leader in social media sponsorship. This once disruptive medium is now a staple in marketing strategies for local businesses and top brands around the world.

Ted grew IZEA to a network of 600,000 publishers and 50,000 brands that span several platforms – SocialSpark, SponsoredTweets, WeReward and IZEA Media. Under Ted's leadership, IZEA became publicly traded in May 2011. Immediately prior to IZEA Ted founded interactive agency MindComet. In 2005 he introduced PayPerPost to the social media marketplace, which spun out of MindComet in 2006 and later became IZEA.

Ted's enthusiasm for the unconventional earned him the ear of some of the world's largest marketing and brand organizations, and his efforts brought international recognition from top media outlets. Ted has received top speaker placement at events including Blog World Expo, Florida Venture Forum, SMX and Dow Jones Venture One Summit.

An avid athlete, Ted has completed 14 marathons and lives in Orlando with his wife, Tara, and dog, Bonzo. He is active in the Orlando community and supports a variety of charities, including Habitat for Humanity and Rock for Hunger.

Donna Mackenzie, Chief Financial Officer

Donna Mackenzie is a Senior Executive and CPA leading IZEA's financial operations during this period of high growth. Her team's focus is providing a scalable infrastructure and the financial guidance to effectively grow and expand the IZEA family of products.

Prior to joining IZEA, Donna was the SVP/CFO of Channel Intelligence, Inc. leading the company in strategy development, operations and finance and accounting over four years during which the company enjoyed significant growth. She has successfully negotiated companies through acquisitions of early and later-stage rounds of investment. Previous to that she was engaged for over six years consulting in the areas of strategic planning, financial and operational improvement for companies such as AC Neilson, United Airlines, Ameritech, Ford and Chrysler.

Donna holds a bachelor's degree in accounting from the University of Alaska, Anchorage. She is a licensed Certified Public Accountant in the State of Florida and is a member of the American and Institute of Certified Public Accountants, as well as the Financial Executives Institute (FEI) where she currently serves as President of the Central Florida Chapter. Donna enjoys public speaking and has presented at several professional conferences. She also has been a contributor to several articles on operational and financial topics.

Ryan Schram, Chief Marketing Officer

An experienced industry thought-leader, Ryan Schram brings an inventive and client-centered focus to IZEA as Chief Marketing Officer.

Under his leadership, IZEA's client development, account management, and brand marketing organizations shape strategic social marketing campaigns for top corporations around the world. Ryan is also responsible for directing the Company's strategies for publisher alliances, public relations, and marketing innovation.

Mr. Schram has more than 15 years of consumer marketing and technology experience including jobs in digital brand management at Clear Channel Interactive, as Director of National Marketing at CBS/Westwood One, and as Group Vice President at ePrize, the global leader in engagement promotion and loyalty solutions.

A graduate of the Eli Broad College of Business at Michigan State University (B.A., Management), the center of Ryan's life is his wife, Jamie and son, Brendan.

Dean Proctor, Vice-President, Engineering

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Dean leverages his extensive IT experience in software engineering, web hosting and data center operations to lead IZEA's software engineering and systems teams in developing robust and compelling platforms and products.

Bringing experience in the public and private sectors, Dean's career focus has been on delivering highly available and scalable Web services. Prior to joining IZEA, Dean had successfully architected and implemented enterprise-level technology solutions for organizations such as the United Nations, US Department of Defense, Network Solutions, Al Jazeera, Fox, Seaworld and Disney.

Dean holds a B.S. in Computer Science from the University of Central Florida and several industry certifications, including Cisco Certified Network Professional (CCNP) and Systems Security Certified Professional (SSCP). Dean is an avid supporter of Open Source and has contributed to projects such as the Linux kernel, FreeBSD ports system, and Drupal content management system.

RISK FACTORS

In our view, IZEA's biggest risk is if some of the large competitors such as Facebook or Glam Media decide to put a full-court press on its rock-solid business model. We deem this highly unlikely as it would require a herculean effort on their parts to match the current success of the business model. A secondary risk would be slowdowns in overall ad spending dollars, or other SMS-type programs, such as mobile initiatives which could prove technologically superior. Execution risks in its new platforms could impair meaningful revenue generation and profitability out to a later date, or result in a smaller initial ramp, thus impacting revenue and income goals. Slower sales penetration as a result of competition from larger firms, the time required for market education, branding, or even competition from newer firms with higher payouts to publishers are all typical concerns and consistent with firms of IZEA's size and standing.

LOOKING AHEAD

Management recently announced that it was releasing its 1Q12 results on May 15, 2012. In addition, the Company released guidance for 2012 which was very strong. Revenue for the company is expected to double over fiscal year 2011 to \$8.6 million, fueled by its May 2012 sales pipeline of \$9.1 million that has increased by 50% since January 2012 and doubled since May last year.

The Company's pipeline is growing at an average of 8% month-over-month and the conversion rates are solid and gross margins are expected to rise dramatically in Q1. Revenue from IZEA's display advertising solution, IZEA Media, doubled from December 2011 to March 2012 and today has over 70 million monthly impressions. We expect to see a who's who list of client campaigns for Qq1 as well.

This week, IZEA will formally unveil a new product designed to monetize sponsored photo and video posts to Twitter and Facebook. For the remainder of the 2012 fiscal year, IZEA will continue investing heavily in sales and marketing, and losses ahead of investment should be expected as the Company positions itself as the de facto standard in SMA. The Company expects to achieve profitability sometime in early 2013.

CONCLUSION

With its huge reach and first-mover advantage, IZEA is poised to be the next major social media player and is a great alternative to buying Facebook. In fact, we expect the stock to have a stellar week, ahead of the planned Facebook IPO at week's end. Looking out longer term, given the low valuation afforded this social media leader, we would not be surprised to see the Company be acquired at a large premium to prevailing market valuations. In the meantime, investors should expect the stock to move higher as technology and sales milestones are achieved this year. We rate these shares Speculative Buy.

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Recent Trading History For IZEA

(Source: Stockta.com)



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Analyst: Robert Goldman

Rob Goldman has over 20 years of investment and company research experience as a senior research analyst and as a portfolio and mutual fund manager. During his tenure as a sell side analyst, Rob was a senior member of Piper Jaffray's Technology and Communications teams. Prior to joining Piper, Rob led Josephthal & Co.'s Washington-based Emerging Growth Research Group. In addition to his sell-side experience Rob served as Chief Investment Officer of a boutique investment management firm and Blue and White Investment Management, where he managed Small Cap Growth portfolios and *The Blue and White Fund*.

Analyst Certification

I, Robert Goldman, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report.

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