



Marchex, Inc.

(NASDAQ: MCHX)

Earnings/Ratings
Changes
Price Target Upgrade

Outperform

Speculative Risk

Jordan Rohan, Analyst

(212) 428-6411 jordan.rohan@rbccm.com

Ross Sandler, Associate

(212) 428-6227 ross.sandler@rbccm.com

Stephen Ju, Associate

(212) 428-2365 stephen.ju@rbccm.com

Price: 25.51 Price Target: 30.00 ↑ 25.00
 52-Wk High: 26.25 52-Wk Low: 13.15
 Float (MM): 18.1 Debt to Cap: NM
 Shares Out (MM): 32.9 Market Cap (MM): 839
 Dividend: NM Yield: NM
 Tr. 12 ROE: NM Est 3-Yr EPS Gr: 45.00%
 Trading Vol. (MM): 0.547
 Institutional Own.: 35%

(FY Dec)	2004A	2005E	2006E	2007E
Revenue Net (MM) Cal	43.80	94.64	136.79	174.31
MktCap/Rev	19.16x	8.87x	6.13x	4.81x
EBITDA Cal	6.23	29.38	48.13	67.49
EPS Cal	0.13	0.36	0.63	0.90
P/E	NM	70.86x	40.49x	28.34x

Revenue Net (MM) Cal	Q1	Q2	Q3	Q4
2004	7.60A	8.87A	12.22A	15.12A
2005	18.40A	21.17A	25.63A	29.45E
2006	31.31E	32.14E	33.99E	39.35E
2007	41.53E	41.81E	42.90E	48.07E
EBITDA Cal				
2004	0.75A	0.86A	1.93A	2.69A
2005	4.74A	7.21A	8.10A	9.34E
2006	10.41E	10.30E	11.74E	15.68E
2007	15.68E	15.32E	16.19E	20.30E
EPS Cal				
2004	0.00A	0.02A	0.04A	0.06A
2005	0.07A	0.09A	0.09A	0.11E
2006	0.13E	0.13E	0.15E	0.21E
2007	0.21E	0.20E	0.21E	0.27E

FY EPS now reflects adjustments for non cash amortization.

All values in USD unless otherwise noted.

Priced as of prior trading day's market close, EST (unless otherwise stated).

Raising Target, And Providing A Closer Look At Direct Navigation

Event

Raising Target to \$30 from \$25

Investment Opinion

Net: We are raising our price target on Marchex to \$30, and continue to believe that the stock remains one of the best small-cap opportunities in online advertising in 2006. Management should be in a position to exceed expectations over the next several quarters, as it manages the growth of its high margin direct navigation business. At only 13.5x 2007 EBITDA, the shares still present a good value given the potential growth over the next two years.

- **Direct Navigation Estimates Still Conservative:** Our street-high revenue estimate of \$29m in 4Q could prove conservative, as it only assumes 22% q/q growth in Direct Navigation revenue to \$9.4m. MCHX direct navigation revenue was up 20% q/q in 3Q05, before many of the websites were improved. If the traffic grows only seasonally at 15%, then we need only to see 7% growth in monetization to reach our estimate. We would not be surprised to see Direct Navigation revenue north of \$10m, which could also boost margins.
- **Investors Can Learn from Japan's LiveDoor:** There are other examples of successful direct navigation strategies. In particular, we note that Live Door Inc. owns a company called ClickDiario that has developed 30 highly relevant, generic Spanish language dot com domains into an Hispanic online media franchise with 40% reach. ClickDiario has grown its traffic ten-fold since 2000, and provides an interesting philosophical comparable for MCHX.
- **Valuation:** Our new \$30 price target is based solely on 2007 EBITDA estimates (previously we used a blended average of 2006/2007). Shares of Marchex trade at 13.5x 2006 EBITDA, below the SMID Internet average of 14.2x.

Summary and Investment Conclusion

We are raising our price target on Marchex to \$30, and continue to believe that the stock remains one of the best small-cap opportunities for investors to participate in the secular growth trend in online advertising in 2006. Management should be in a position to exceed estimates handily over the next several quarters, as it manages the growth across its high margin Direct Navigation business. At only 13x 2007 EBITDA, the shares still present a good value given the potential growth over the next two years. Awareness of the company's potential has increased, but still remains far below other small and mid-cap Internet stocks like CNET, AQNT, and VCLK.

Why Direct Navigation Is One Of The Best Businesses On The Web

Some investors have been skeptical of the opportunity around direct navigation, referring to Marchex's portfolio as low quality traffic. We disagree. We believe that the traffic that ends up on very specific direct navigation websites is targeted, almost by definition, and should convert at a higher level than traffic from the broader portals. Confirming that view, Marchex management has stated publicly that the conversion rates on its traffic are higher than the Overture (Yahoo search) affiliate average. Below we have provided a framework for investors who are new to the direct navigation space, to understand why we believe that Marchex's traffic is some of the highest quality on the web from the advertisers point of view.

How Do Consumers Arrive at Direct Navigation Sites?

Consumers arrive at websites through a number of different channels on the web, including: search, direct navigation, bookmarks, portals, and general web browsing. The origin of Internet traffic is very important, as it often determines user intent (grazing or hunting), and hence, the value of that traffic to advertisers. Search and direct navigation are two kinds of primary traffic sources with a mission-oriented flavor. Secondary traffic, or traffic that is generated by browsing, tends to be less mission-oriented or transactional, on average.

Within primary Direct Navigation traffic, the industry classifies the traffic into three large buckets: "generic" intent, "branded" intent, and mistake traffic.

- Generic intent is when a user knows what he/she is looking for and simply enters the keyword into the URL field of their browser, similar to using a search engine. An example would be typing in videocamera.com, when the user is looking for information on video cameras. For this reason, generic intent traffic is the highest quality variety of direct navigation traffic.
- Branded intent is when a user hears of a product, service or company (usually offline) and enters that particular keyword into the URL field of their browser in an attempt to find a particular website.
- Mistake traffic is, just as it sounds, when the user makes a "typo" when entering a URL address. An example of this would be to enter shoppingg.com, instead of shopping.com (which would take you to a direct navigation website).

Two business models on the Internet today that capture primary traffic are search and direct navigation. The past couple years has proven that search, and particularly Google, are increasingly becoming the starting point for a significant share of Internet traffic. Advertisers have shown their willingness to reach consumers by placing ads on the search results pages of Google and the other search engines.

Direct navigation, while in its infancy compared to sponsored search, is similar in that it represents a point of origin. Advertisers have already responded, and Marchex and other direct navigation players are starting to reap the benefits. The monetization is largely through the same keyword-based sponsored search networks such as Google and Yahoo, enabling owners of direct navigation portfolios to have immediate access to hundreds of thousands of advertisers, maximizing yield.

Case Study - ClickDiario

We have spoken to a number of participants in the Direct Navigation space recently, and have found one particular example of a company that has successfully embarked on a similar strategy to that pursued by Marchex, albeit on a much smaller scale. ClickDiario, a unit of the Japanese online marketing services company Live Door, has a proprietary network of over 30 websites, all with very highly relevant Spanish language names (deportes.com, salud.com, mujeres.com). Over the past five years, ClickDiario has increased its traffic from under 5 million unique visitors to 45 million (according to Comscore); 40% of Hispanic users online today visit a ClickDiario portal at least once per month.

Recently, Matias de Tezanos, CEO of ClickDiario, explained his company's strategy in an interview with DN Journal (the industry trade magazine):

He stated, ". in 2003 we bought Deportes.com (Sports.com in Spanish) for \$100,000. After spending \$30,000 more for development and three months selling sponsorships we recovered our entire investment in the first 12 months," de Tezanos said. Essentially, Clickdiario has a proven formula by which it buys a domain, develops the site, boosts the traffic and monetizes it at a much higher rate.

What is the Take Away for MCHX Shareholders?

ClickDiario is just one of many players in the direct navigation space that have turned a bunch of domain names into a network of profitable, high-growth online businesses. The strategy is very similar to what Marchex is doing, just on a smaller scale and in a much later stage of development. If Marchex were to grow its traffic at the same rate as ClickDiario (10x over the next five years), and continues to monetize the traffic at increasingly higher rates, then Marchex's ARPD (average annualized revenue per domain) could increase significantly. Therein lies the promise of MCHX, and of direct navigation in general - revenues should be somewhat correlated with the increase in traffic and monetization, both of which could be many times higher in a few years than they are today. And with very high incremental margins on that revenue, the company's free cash flow could improve significantly.

Direct Navigation Revenue Estimates Likely Too Conservative For 4Q05

Marchex's Direct Navigation revenue increased 20% q/q in 3Q05, largely due to a 14% sequential increase in traffic to the portfolio, to 24m unique visitors (which for the most part was not associated with the zip code domains). The traffic increase was coupled with a 5% increase in revenue per unique visitor. Looking at the revenue growth from a per-domain perspective, average annualized revenue per domain (ARPD) increased 19% q/q, while the number of domains increased by around 1% q/q, we believe. Our street high fourth quarter revenue estimate of \$29m includes \$9.4m from Direct Navigation, or 22% q/q growth. Given the strong performance in 3Q05, we believe that Direct Navigation revenue could exceed \$10m in 4Q05, with very high incremental EBITDA margins.

Progress of the Direct Navigation Portfolio

The company is currently continuing to test domains on the verticals side (as we discuss below), which has been occurring since the beginning of 3Q05. Marchex has stated that, based on the data from the testing phase, it takes around two months for the initial site redesign to start to drive incremental traffic from the search engines and repeat users. The testing should have no major change in revenue dynamics in 4Q05. However, on the zip code side of the portfolio, where all 74,000 sites are now in beta form, the traffic halo effect should start to contribute, albeit off a small base of unique users. Traffic to the zip code domains is currently only around 1 million unique visitors per month, or about 4% of total traffic in the portfolio.

In addition to improving traffic and monetization on an organic basis, Marchex should be able to grow revenue by adding additional domains to the portfolio over time. The table below shows a breakdown of Marchex's direct navigation segment.

Marchex Inc. -- Direct Navigation Revenue Breakdown									
(\$ in Millions, except per share amounts)									
	2Q05	3Q05	4Q05	FY05	1Q06	2Q06	3Q06	4Q06	FY06
Number of Domains (000s)	221	223	226		231	237	243	249	
<i>q/q domain additions</i>	5.3%	1.0%	1.0%		2.5%	2.5%	2.5%	2.5%	
Revenue Per Domain	\$28.93	\$34.46	\$41.70		\$46.71	\$50.44	\$52.96	\$60.91	
<i>q/q yield improvement</i>	14.4%	19.1%	21.0%		12.0%	8.0%	5.0%	15.0%	
Annualized Revenue Per Domain	\$116	\$138	\$167		\$187	\$202	\$212	\$244	
<i>q/q % growth</i>	14.4%	19.1%	21.0%		12.0%	8.0%	5.0%	15.0%	
Direct Navigation Revenue (\$ in mills.)	6.4	7.7	9.4	26.3	10.8	12.0	12.9	15.2	50.8
<i>q/q % growth</i>	16.1%	20.3%	22.2%		14.8%	10.7%	7.6%	17.9%	
Disclosed Unique Visitors	21	24							
<i>q/q % growth</i>		14%							
Revenue Per Unique	\$0.30	\$0.32							
<i>q/q % growth</i>		5%							

Source: RBC Estimates, Company reports

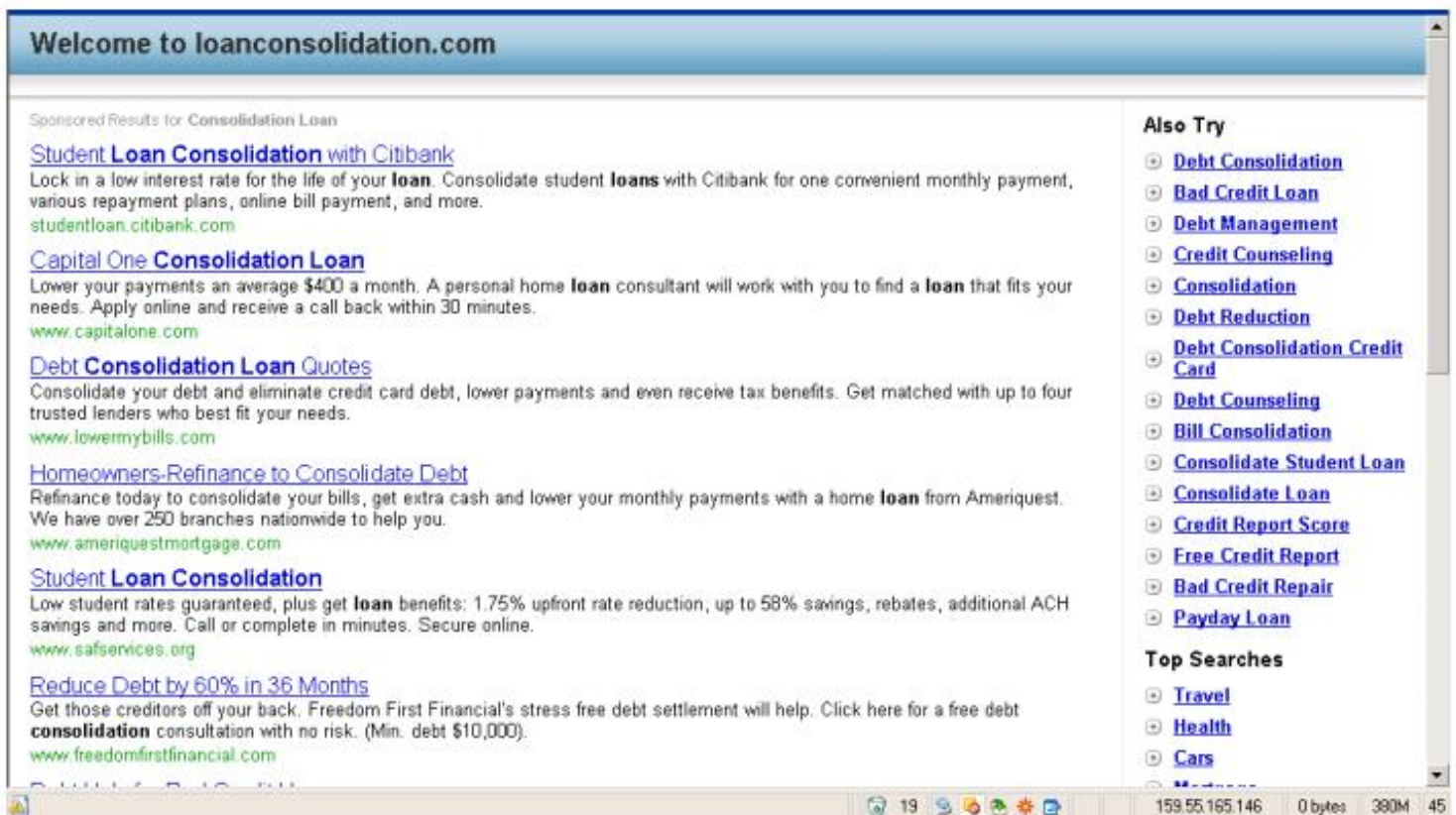
Proprietary Tracking Shows Testing Of Vertical Portals

Below we discuss recent site redesign tests that we have picked up through our proprietary tracking of several hundred domains. These changes are primarily focused on the vertical sites side of the Direct Navigation portfolio (which accounts for around 66% of the domains). The company has been working on improving the content, depth and aesthetics on select sites (aside from the improvements we have noted on the zip code domains) in order to drive traffic from algorithmic search.

Management has previously commented that once it begins testing and implementing optimization techniques, the sites experience increases in average daily traffic, in some instances multiples of previous traffic levels. That increase in traffic is not immediate, and could take a few months. Improved traffic, coupled with improved monetization, is the key lever for revenue growth. We believe that Marchex is actively working on both factors, as seen in the examples below.

The first screenshot below shows www.loanconsolidation.com as it exists today, and as it has existed since 3Q05. This page format is likely what you will see on 95% of the Marchex vertical sites. In the Direct Navigation business, if the strategy is not to drive traffic from sources other than from "type-ins" (search for example), any unnecessary formatting on a page tends to lower the click-through rate of the site, or distract the traffic from clicking on a revenue-generating link. For this reason, while the sites are in early development stage, Marchex will chose to keep them in this very basic format.

A typical look at loanconsolidation.com



However, like Clickdiario, Marchex's strategy differs materially from other players in the Direct Navigation space, in that the company wants to develop content rich, relevant websites that users can find via "type-in" or, more importantly, through a search engine. The company also wants to generate repeat traffic over time to its domains. These two sources (search and repeat traffic) are a key strategic differentiator for Marchex, and should allow them to not only increase revenue from Direct Navigation over time, but also to control the rate by which the revenue growth occurs from quarter to quarter.

An example of the initial steps in improving the aesthetics and depth of a domain is shown below, which is www.loanconsolidation.com as it existed briefly for a couple days earlier this week. Although the content build-out is still in early stage, the improved site redesign is in place, and the next step is for Marchex to feed in relevant content, similar to the progress that the company is making on the zip code side.

loanconsolidation.com on 12-12-05

loanconsolidation.com
Your finance resource

Home | Credit Reports | Loans | Investing | Credit Cards | Insurance | Retirement

Sponsored Results for Consolidation Loan

Debt Consolidation Loan Quotes
Consolidate your debt and eliminate credit card debt, lower payments and even receive tax benefits. Get matched with up to four trusted lenders who best fit your needs.
www.lowemybills.com

Homeowners-Refinance to Consolidate Debt
Refinance today to consolidate your bills, get extra cash and lower your monthly payments with a home loan from Ameriquest. We have over 250 branches nationwide to help you.
www.ameriquestmortgage.com

Capital One Consolidation Loan
Lower your payments an average \$400 a month. A personal home loan consultant will work with you to find a loan that fits your needs. Apply online and receive a call back within 30 minutes.
www.capitalone.com

Good Credit/Own home? Consolidation Loan
Debt consolidation. Low payments. More debt than equity or new homeowner? No problem. Consolidate bills and get low payments and interest. Simplify your finances. Not for mobile homes.
www.homeopt.com

Loan Consolidation
Low rates, no hassles. Fast closings on home refinancing.
www.surepointlending.com

Reduce Debt by 60% in 36 Months
Get those creditors off your back. Freedom First Financial's stress free

Personal Finance

Lending Options
[Mortgages](#)
[Loans](#)
[Cash Advance](#)
[Loan Consolidation](#)

Investing Services
[Stock Trading](#)
[Mutual Funds](#)
[IRA](#)
[401k](#)

Insurance Center
[Health Insurance](#)
[Business Insurance](#)
[Life Insurance](#)
[Car Insurance](#)

Business Services
[Domain Names](#)
[Web Hosting Providers](#)
[Business Cards](#)
[Office Space](#)

Online Trading

Done | 25 | 159.55.165.146 | 0 bytes | 303M 46

To understand the potential of Marchex's strategy, we urge investors not to focus on what the domains currently look like, but to imagine what they could look like in 12-24 months, especially as the company continues to sign deals for unique content. ClickDiario, while much smaller an opportunity than Marchex, represents a good benchmark for investors to look at.

Valuation

Our price target has been raised to \$30 from \$25, and now reflects a sum of the parts valuation methodology based on our 2007 EBITDA estimates for each of the Marchex business segments. Although the disclosures do not specifically break out the EBITDA margins of the different segments, we take a conservative approach and model a modest 70% for Direct Navigation and 15% for the core business currently. We have assigned an EV/EBITDA multiple of 18x for the higher-growth, higher-margin Direct Navigation segment and 10x for the core business, then added back cash and \$40 million in tax shields to arrive at our \$30 price target. Our valuation methodology is shown in the table below:

Marchex, Inc. -- Sum of the Parts Valuation

(\$ in millions, except per share amounts)

Current Price	\$25.40
Diluted Shares Outstanding	38.1
Current Market Cap	669.8
Less Cash and Other Assets	57.2
Add Face Value of Preferreds	57.5
Less FY05 FCF	19.7
Adjusted Enterprise Value	650.5

<u>Sum of the Parts</u>	<u>2005E</u>	<u>2006E</u>	<u>2007E</u>
Core Marchex and Acquired Companies			
Revenue	74.0	90.7	106.2
EBITDA	11.0	11.2	11.8
EBITDA Margin	14.9%	12.4%	11.1%
Target EBITDA Multiple		10.0x	10.0x
Implied EV		112.3	118.0
Direct Navigation			
Revenue	26.3	50.8	74.0
EBITDA	18.4	36.9	55.7
EBITDA Margin	70.0%	72.6%	75.3%
Target EBITDA Multiple			18.0x
Implied EV			1002.3
Total Enterprise Value			1120.3
Add FY05/FY06 Ending Cash Balance			108.0
Less Preferred Stock Face Value			57.5
Plus PV of Future Tax Shield			40.0
Equity Market Capitalization			1170.8
FY05 / FY06 End Projected Sharecount			40.6
Implied Share Price			\$30

Source: Company reports and RBC Capital Markets

Price Target Impediment

Risks to our price target include:

- Marchex's pay-for-performance network is up against bigger and well-funded competition such as GOOG, Microsoft, YHOO and others.
- Potential for decelerating growth in online ad spending.
- Direct Navigation revenue may take longer to ramp and the business may require a larger investment than anticipated.

Company Description

Marchex is a provider of performance-based advertising and search marketing services. The company's technology-based platform helps merchants generate highly targeted traffic and sales leads through multiple online distribution channels, including search engines, directories, comparison shopping, and direct navigation.

Marchex, Inc. -- Quarterly Earnings Analysis
(\$ in millions, except per share amounts)

FY Dec	2004A				2004A	2005E				2005E	2006E				2006E	2007E				2007E
	Mar A 1QA	Jun A 2QA	Sep A 3QA	Dec A 4QA		Mar A 1QA	Jun A 2QA	Sep A 3QA	Dec E 4QE		Mar E 1QE	Jun E 2QE	Sep E 3QE	Dec E 4QE		Mar E 1QE	Jun E 2QE	Sep E 3QE	Dec E 4QE	
Direct Navigation Revenue						2.8	6.4	7.7	9.4	26.3	10.8	12.0	12.9	15.2	50.8	16.8	17.7	18.4	21.1	74.0
IndustryBrains								1.9	2.1	4.0	2.2	2.2	2.3	2.5	9.2	2.6	2.6	2.7	2.9	10.9
Core Marchex Revenue	7.6	8.9	6.7	15.1	38.3	15.6	14.8	16.0	18.0	64.4	18.3	17.9	18.8	21.7	76.8	22.1	21.4	21.9	24.1	89.5
Net Revenue	7.6	8.9	12.2	15.1	43.8	18.4	21.2	25.6	29.5	94.6	31.3	32.1	34.0	39.3	136.8	41.5	41.8	42.9	48.1	174.3
Cost of Revenue	4.8	5.7	7.6	9.3	27.4	10.7	10.7	13.4	15.1	50.0	15.5	16.3	16.4	17.5	65.7	18.5	19.1	19.2	20.1	77.0
Gross Profit	2.8	3.1	4.6	5.8	16.4	7.7	10.4	12.2	14.3	44.7	15.8	15.8	17.6	21.9	71.1	23.1	22.7	23.7	27.9	97.3
Operating Expenses:																				
Selling and Administrative	1.0	1.0	1.2	1.2	4.4	1.3	1.5	2.8	3.2	8.9	3.4	3.4	3.6	3.9	14.2	4.4	4.4	4.5	4.7	18.1
Product Development	0.5	0.5	0.6	0.7	2.3	0.8	1.3	1.2	1.3	4.6	1.6	1.6	1.7	1.8	6.7	2.1	2.1	2.2	2.2	8.5
General and Administrative	0.7	0.8	1.1	1.5	4.1	1.5	1.5	1.5	1.6	6.0	1.7	1.8	1.8	1.9	7.1	2.2	2.3	2.3	2.3	9.1
Acquisition-related retention consideration	0.1	0.1	0.1	0.1	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Facility Relocation	0.2	0.0	(0.0)	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock Based Compensation	0.4	0.2	0.1	0.2	0.9	0.1	0.5	0.6	1.2	2.4	0.9	0.9	0.9	0.9	3.5	0.9	0.9	0.9	0.9	3.5
Amortization of Acquired Intangibles	1.0	1.0	1.4	1.5	5.0	3.1	4.9	5.2	6.4	19.7	6.4	6.4	6.4	6.4	25.8	6.4	6.4	6.4	6.4	25.8
Total Operating Expenses	4.0	3.8	4.4	5.2	17.4	6.8	9.8	11.2	13.8	41.5	13.9	14.1	14.4	14.8	57.3	16.1	16.1	16.3	16.5	65.0
Reported Operating Income	(1.1)	(0.7)	0.1	0.7	(1.0)	0.9	0.7	1.0	0.5	3.2	1.9	1.7	3.1	7.0	13.8	7.0	6.6	7.4	11.4	32.3
Pro Forma Operating Expenses	3.2	3.4	4.2	4.9	15.8	6.6	9.3	10.6	12.6	39.1	13.0	13.2	13.6	14.0	53.8	15.2	15.3	15.4	15.6	61.5
Pro Forma Operating Income	(0.4)	(0.3)	0.4	1.0	0.6	1.1	1.2	1.6	1.7	5.6	2.8	2.6	4.0	7.9	17.3	7.9	7.4	8.3	12.3	35.8
Amortization of Acquired Intangibles	1.0	1.0	1.4	1.5	5.0	3.1	4.9	5.2	6.4	19.7	6.4	6.4	6.4	6.4	25.8	6.4	6.4	6.4	6.4	25.8
Adjusted OIBA	0.6	0.7	1.8	2.4	5.5	4.2	6.1	6.8	8.2	25.3	9.2	9.1	10.5	14.4	43.1	14.3	13.9	14.7	18.7	61.6
Depreciation	0.1	0.1	0.2	0.2	0.7	0.2	0.2	0.3	0.3	1.0	0.3	0.4	0.4	0.5	1.6	0.5	0.6	0.6	0.7	2.5
Amortization of Domains and YHOO settlement	0.0	0.0	0.0	0.0	0.0	0.4	0.8	1.0	0.8	3.1	0.8	0.8	0.8	0.8	3.4	0.8	0.8	0.8	0.8	3.4
Adjusted EBITDA	0.7	0.9	1.9	2.7	6.2	4.7	7.2	8.1	9.3	29.4	10.4	10.3	11.7	15.7	48.1	15.7	15.3	16.2	20.3	67.5
Interest Income	0.0	0.1	0.1	0.1	0.3	0.3	0.6	0.5	0.6	2.0	0.7	0.8	0.9	1.0	3.4	1.1	1.2	1.3	1.5	5.1
Interest Expense	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Pretax Income	(1.1)	(0.6)	0.2	0.8	(0.7)	1.2	1.3	1.6	1.1	5.2	2.6	2.5	4.0	8.0	17.2	8.1	7.8	8.7	12.9	37.4
Income Tax Expense (benefit)	(0.1)	(0.1)	0.1	0.2	0.0	0.5	0.5	0.9	0.4	2.3	1.0	1.0	1.6	3.2	6.9	3.2	3.1	3.5	5.1	15.0
Reported Net Income	(1.0)	(0.5)	0.1	0.6	(0.7)	0.7	0.8	0.7	0.7	2.9	1.6	1.5	2.4	4.8	10.3	4.8	4.7	5.2	7.7	22.4
Convertible Preferred Stock Dividends	0.0	0.0	0.0	0.0	0.0	0.3	0.7	0.7	0.7	2.4	0.7	0.7	0.7	0.7	2.7	0.7	0.7	0.7	0.7	2.7
Accretion to Redemption Value of Redeemable Conver	0.4	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Income (loss) Applicable to Common	(1.4)	(0.5)	0.1	0.6	(1.2)	0.4	0.1	0.0	(0.0)	0.5	0.9	0.8	1.7	4.1	7.6	4.2	4.0	4.5	7.0	19.7
Pro Forma Operating Income	(0.4)	(0.3)	0.4	1.0	0.6	1.1	1.2	1.6	1.7	5.6	2.8	2.6	4.0	7.9	17.3	7.9	7.4	8.3	12.3	35.8
add: Amortization of acquired intangibles	1.0	1.0	1.4	1.5	5.0	3.1	4.9	5.2	6.4	19.7	6.4	6.4	6.4	6.4	25.8	6.4	6.4	6.4	6.4	25.8
Interest Income	0.0	0.1	0.1	0.1	0.3	0.3	0.6	0.5	0.6	2.0	0.7	0.8	0.9	1.0	3.4	1.1	1.2	1.3	1.5	5.1
Interest Expense	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	0.6	0.8	1.8	2.5	5.8	4.4	6.7	7.3	8.8	27.2	9.9	9.9	11.3	15.3	46.5	15.4	15.1	16.0	20.2	66.7
Income Tax Expense (Benefit)	0.3	0.3	0.8	1.1	2.4	1.9	2.8	3.1	3.7	11.4	4.0	3.9	4.5	6.1	18.6	6.2	6.0	6.4	8.1	26.7
Adjusted Net Income	0.4	0.5	1.1	1.5	3.4	2.6	3.9	4.3	5.1	15.8	6.0	5.9	6.8	9.2	27.9	9.2	9.1	9.6	12.1	40.0
Convertible Preferred Stock Dividends	0.4	0.0	0.0	0.0	0.4	0.3	0.7	0.7	0.7	2.4	0.7	0.7	0.7	0.7	2.7	0.7	0.7	0.7	0.7	2.7
Adjusted Net Income	0.0	0.4	1.1	1.5	2.9	2.2	3.2	3.6	4.4	13.4	5.3	5.2	6.1	8.5	25.1	8.5	8.4	8.9	11.4	37.3
<u>Diluted Earnings per Share</u>																				
Reported Earnings per Share	(\$0.11)	(\$0.02)	\$0.01	\$0.02	(\$0.05)	\$0.01	\$0.00	\$0.00	(\$0.00)	\$0.01	\$0.02	\$0.02	\$0.04	\$0.10	\$0.19	\$0.10	\$0.10	\$0.11	\$0.17	\$0.47
Adjusted EPS	(\$0.00)	\$0.02	\$0.04	\$0.05	\$0.13	\$0.07	\$0.09	\$0.09	\$0.11	\$0.36	\$0.13	\$0.13	\$0.15	\$0.21	\$0.63	\$0.21	\$0.20	\$0.21	\$0.27	\$0.90
Basic Shares Outstanding	13.4	24.2	25.2	25.4	22.0	30.2	35.3	36.0	36.4	34.5	36.8	37.1	37.5	37.9	37.3	38.3	38.6	39.0	39.4	38.8
Diluted Shares Outstanding	13.4	24.2	27.0	27.7	23.1	32.9	37.5	38.1	39.1	36.9	39.4	39.8	40.2	40.6	40.0	40.9	41.3	41.7	42.1	41.5
<u>Margin Analysis</u>																				
Gross Margin	37.1%	35.2%	37.6%	38.5%	37.3%	42.0%	49.3%	47.7%	48.6%	47.2%	50.5%	49.3%	51.7%	55.6%	52.0%	55.5%	54.3%	55.2%	58.1%	55.8%
Total Operating Expenses as % of Revenue	6.7%	6.0%	4.9%	4.3%	5.2%	4.2%	6.1%	4.5%	4.5%	4.8%	5.0%	5.1%	5.0%	4.5%	4.9%	5.0%	5.1%	5.0%	4.5%	4.9%
Pro Forma Operating Margin	-5.6%	-3.6%	3.0%	6.3%	1.3%	5.9%	5.5%	6.3%	5.9%	5.9%	8.8%	8.2%	11.8%	20.1%	12.7%	18.9%	17.8%	19.2%	25.6%	20.6%
Adjusted OIBA Margin	8.1%	8.1%	14.4%	16.2%	12.6%	22.7%	28.9%	26.5%	27.8%	26.7%	29.4%	28.2%	30.8%	36.5%	31.5%	34.4%	33.2%	34.3%	39.0%	35.4%
Adjusted EBITDA Margin	9.8%	9.7%	15.8%	17.8%	14.2%	25.7%	34.1%	31.6%	31.7%	31.0%	33.3%	32.1%	34.5%	39.8%	35.2%	37.8%	36.6%	37.7%	42.2%	38.7%
Effective Tax Rate	5.0%	24.2%	36.5%	20.0%	-4.9%	39.4%	37.3%	55.1%	40.0%	43.8%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%	40.0%
Pro Forma Net Income	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<u>Year Over Year Growth</u>																				
Direct Navigation Revenue											292.0%	86.9%	67.2%	61.2%	93.4%	55.5%	48.3%	42.6%	38.9%	45.6%
Core Marchex Revenue	58.8%	65.5%	25.6%	102.7%	66.9%	105.7%	66.6%	138.2%	18.7%	68.0%	17.1%	21.5%	17.6%	20.7%	19.2%	20.7%	19.5%	16.1%	11.0%	16.5%
Net Revenue	58.8%	65.5%	127.9%	102.7%	90.8%	142.0%	138.8%	109.8%	94.8%	116.1%	70.2%	51.8%	32.6%	33.6%	44.5%	32.7%	30.1%	26.2%	22.2%	27.4%
Operating Income						-358.4%	-467.3%	345.5%	82.3%	880.8%	153.6%	123.6%	149.8%	355.4%	208.7%	183.7%	183.9%	105.7%	55.4%	107.0%
Adjusted EBITDA	9.6%	30.6%	208.3%	268.5%	130.9%	535.1%	734.3%	320.2%	246.7%	371.6%	119.9%	42.9%	45.0%	67.8%	63.8%	50.6%	48.7%	38.0%	29.5%	40.2%
Pro Forma Net Income	-100.1%	-100.4%	-100.5%	-100.4%	-100%	-472.3%	-7.5%	-0.9%	3.4%	-28%	0.0%	-16.3%	4%	0.0%	-3%	0.0%	0.0%	0.0%	0.0%	0%
Pro Forma Diluted Earnings per Share	-113.8%	3658.1%	1573.0%	1672.3%	481%	2414.0%	371.4%	136.2%	111.0%	184%	97.3%	54.2%	63%	86.7%	73%	56.3%	54.1%	40.6%	29.3%	43%
<u>Other Metrics</u>																				
Free Cash Flow	0.7	(1.6)	2.1	0.6	1.9	1.4	3.9	5.6	8.8	19.7	8.8	8.5	9.4	10.1	36.8	12.8	11.7	12.2	12.8	49.5
Free Cash Flow per Share	\$0.05	(\$0.06)	\$0.08	\$0.02	\$0.08	\$0.04	\$0.10	\$0.15	\$0.23	\$0.53	\$0.22	\$0.21	\$0.23	\$0.25	\$0.92	\$0.31	\$0.28	\$0.29	\$0.31	\$1.19

Required Disclosures

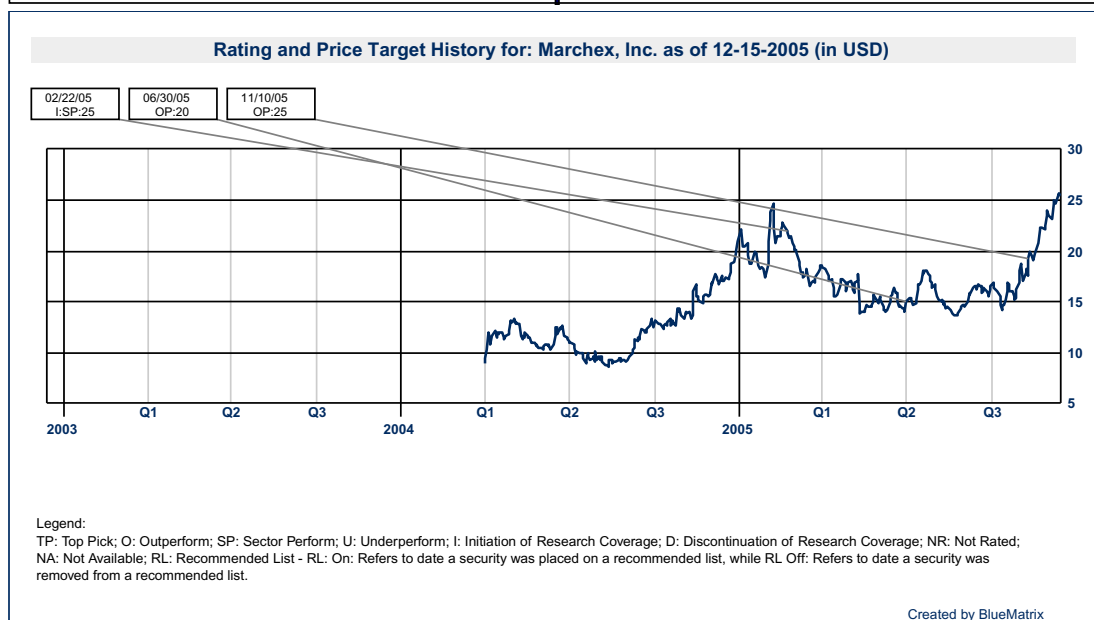
Explanation of RBC Capital Markets Rating System

An analyst's "sector" is the universe of companies for which the analyst provides research coverage. Accordingly, the rating assigned to a particular stock represents solely the analyst's view of how that stock will perform over the next 12 months relative to the analyst's sector. **Ratings**
Top Pick (TP): Represents best in Outperform category; analyst's best ideas; expected to significantly outperform the sector over 12 months; provides best risk-reward ratio; approximately 10% of analyst's recommendations.
Outperform (O): Expected to materially outperform sector average over 12 months.
Sector Perform (SP): Returns expected to be in line with sector average over 12 months.
Underperform (U): Returns expected to be materially below sector average over 12 months.
Risk Qualifiers (any of the following criteria may be present):
Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.
Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

Distribution of Ratings, Firmwide

For purposes of disclosing ratings distributions, regulatory rules require member firms to assign all rated stocks to one of three rating categories--Buy, Hold/Neutral, or Sell--regardless of a firm's own rating categories. Although RBC Capital Markets' stock ratings of Top Pick/Outperform, Sector Perform and Underperform most closely correspond to Buy, Hold/Neutral and Sell, respectively, the meanings are not the same because our ratings are determined on a relative basis (as described above).

Rating	RBC Capital Markets		Investment Banking Serv./Past 12 Mos.	
	Count	Percent	Count	Percent
BUY [TP/O]	383	42.70	131	34.20
HOLD [SP]	432	48.16	133	30.79
SELL [U]	82	9.14	25	30.49



In the event that this is a compendium report (covers more than six subject companies), RBC Capital Markets may choose to provide specific disclosures for the subject companies by reference. To access current disclosures, clients should refer to <http://rbc2.bluematrix.com/bluematrix/Disclosure> or send a request to RBC CM Research Publishing, P.O. Box 50, 200 Bay Street, Royal Bank Plaza, 29th Floor, South Tower, Toronto, Ontario M5J 2W7. References to a Recommended List in the recommendation history chart may include one or more recommended lists or model portfolios maintained by a member company of RBC Capital Markets or one of its affiliates. RBC Capital Markets Recommended Lists include the Strategy Focus List and the Fundamental Equity Weightings (FEW) portfolios. RBC Dain Rauscher Inc. Recommended Lists include the Western Region Focus List (1), a former list called Model Utility Portfolio (2), and the Prime Opportunity List (3) (formerly called the Private

Client Selects), Private Client Prime Portfolio (4), a former list called Private Client Portfolio (5), the Prime Income List (6), and the Guided Portfolio: Large Cap (7). The abbreviation "RL On" means the date a security was placed on a Recommended List. The abbreviation "RL Off" means the date a security was removed from a Recommended List.

Analyst Certification

All of the views expressed in this report accurately reflect the personal views of the responsible analyst(s) about any and all of the subject securities or issuers. No part of the compensation of the responsible analyst(s) named herein is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the responsible analyst(s) in this report.

Dissemination of Research

RBC Capital Markets endeavours to make all reasonable efforts to provide research simultaneously to all eligible clients, having regard to local time zones in overseas jurisdictions. RBC Capital Markets' equity research is posted to our proprietary websites to ensure eligible clients receive coverage initiations and changes in rating, targets and opinions in a timely manner. Additional distribution may be done by the sales personnel via email, fax or regular mail. Clients may also receive our research via third party vendors. Please contact your investment advisor or institutional salesperson for more information regarding RBC Capital Markets research.

Conflicts Disclosures

RBC Capital Markets Policy for Managing Conflicts of Interest in Relation to Investment Research is available from us on request and is made available on our website at <http://www.rbccm.com/cm/file/0,,63022,00.pdf>. We reserve the right to amend or supplement this policy at any time. For the current policy, please check our website.

Important Disclosures

The analyst(s) responsible for preparing this research report received compensation that is based upon various factors, including total revenues of the member companies of RBC Capital Markets and its affiliates, a portion of which are or have been generated by investment banking activities of the member companies of RBC Capital Markets and its affiliates.

RBC Capital Markets has provided Marchex, Inc. with investment banking services in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates managed or co-managed a public offering of securities for Marchex, Inc. in the past 12 months.

A member company of RBC Capital Markets or one of its affiliates received compensation for investment banking services from Marchex, Inc. in the past 12 months.

RBC Capital Markets Corp. makes a market in the securities of Marchex, Inc. and may act as principal with regard to sales or purchases of this security.

RBC Capital Markets is currently providing Marchex, Inc. with investment banking services.

RBC Capital Markets is acting as Financial Advisor to Marchex, Inc. in its proposed purchase and assumption agreement with IndustryBrains, Inc. The proposed transaction is subject to customary closing conditions including regulatory approval. This research report and the information herein is not intended to serve as an endorsement of the proposed transaction, or result in procurement, withholding or revocation of any action by a security holder.

The author(s) of this report are employed by RBC Capital Markets Corporation, a securities broker dealer located in New York, USA.

Additional Disclosures

RBC Capital Markets is the business name used by certain subsidiaries of Royal Bank of Canada, including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada - Sydney Branch. The information contained in this report has been compiled by RBC Capital Markets from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC Capital Markets, its affiliates or any other person as to its accuracy, completeness or correctness. All opinions and estimates contained in this report constitute RBC Capital Markets' judgement as of the date of this report, are subject to change without notice and are provided in good faith but without legal responsibility. Nothing in this report constitutes legal, accounting or tax advice or individually tailored investment advice. This material is prepared for general circulation to clients and has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The investments or services contained in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about the suitability of such investments or services. This report is not an offer to sell or a solicitation of an offer to buy any securities. Past performance is not a guide to future performance, future returns are not guaranteed, and a loss of original capital may

occur. RBC Capital Markets research analyst compensation is based in part on the overall profitability of RBC Capital Markets, which includes profits attributable to investment banking revenues. Every province in Canada, state in the U.S., and most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as the process for doing so. As a result, the securities discussed in this report may not be eligible for sale in some jurisdictions. This report is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC Capital Markets nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC Capital Markets.

Additional information is available on request.

To U.S. Residents: This publication has been approved by RBC Capital Markets Corporation, which is a U.S. registered broker-dealer and which accepts responsibility for this report and its dissemination in the United States. Any U.S. recipient of this report that is not a registered broker-dealer or a bank acting in a broker or dealer capacity and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report, should contact and place orders with RBC Capital Markets Corporation. **To Canadian Residents:** This publication has been approved by RBC Dominion Securities Inc. Any Canadian recipient of this report that is not a Designated Institution in Ontario, an Accredited Investor in British Columbia or Alberta or a Sophisticated Purchaser in Quebec (or similar permitted purchaser in any other province) and that wishes further information regarding, or to effect any transaction in, any of the securities discussed in this report should contact and place orders with RBC Dominion Securities Inc., which, without in any way limiting the foregoing, accepts responsibility for this report and its dissemination in Canada. **To U.K. Residents:** This publication has been approved by Royal Bank of Canada Europe Limited ("RBCCEL") which is authorized and regulated by Financial Services Authority ("FSA"), in connection with its distribution in the United Kingdom. This material is not for distribution in the United Kingdom to private customers, as defined under the rules of the FSA. RBCCEL accepts responsibility for this report and its dissemination in the United Kingdom. **To Persons Receiving This Advice in Australia:** This material has been distributed in Australia by Royal Bank of Canada - Sydney Branch (ABN 86 076 940 880, AFSL No. 246521). This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider the appropriateness of this material having regard to their objectives, financial situation and needs. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product. **To Hong Kong Residents:** This publication is distributed in Hong Kong by RBC Investment Services (Asia) Limited, a licensed corporation under the Securities and Futures Ordinance. This material has been prepared for general circulation and does not take into account the objectives, financial situation, or needs of any recipient. Hong Kong persons wishing to obtain further information on any of the securities mentioned in this publication should contact RBC Investment Services (Asia) Limited at 17/Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong (telephone number is 2848-1388).

Copyright © RBC Capital Markets Corporation 2005 - Member SIPC

Copyright © RBC Dominion Securities Inc. 2005 - Member CIPF

Copyright © Royal Bank of Canada Europe Limited 2005

Copyright © Royal Bank of Canada 2005

All rights reserved