

Kaboose, Inc.: More like a Locomotive

Shannon Roxborough | July 02, 2007 5:05am EDT

Toronto-based Kaboose, Inc. (TSX: KAB) is North America's largest independent online media company in the kids-and-family market — a sector dominated by giants such as **Walt Disney Co.** (NYSE: [DIS](#)), **Time Warner Inc.'s** (NYSE: [TWX](#)) AOL unit and **Viacom Inc.'s** (NYSE: [VIA](#)) Nickelodeon. Solid planning, creative financing, strategic marketing, and sound partnerships have this small-cap standing strong in the face of stiff competition from larger competitors with well-oiled marketing machines.

Founded in 1999, right before the dot-com bust, Kaboose plowed full steam ahead, aggressively snapping up kid-oriented websites. After a round of acquisitions, the small media company conceded it would never win the battle for children's attention on the Internet, so it shifted gears and targeted their moms. Today, the company runs a string of content-related sites that focus on mothers and young families. Visitors to Kaboose's sites can do everything from staying informed of the latest trends and reading product and service reviews to planning birthday parties and family vacations to creating online photo scrapbooks.

With a Web portfolio including popular sites like [BabyZone](#), [ParentZone](#), [Birthday in a Box](#), [Two Peas in a Bucket](#) and the recently acquired image-sharing service [Bubbleshare](#), Kaboose's 120,000 pages of content attract 12 million unique visitors a month and its family of sites have more than 2 million registered users (return visitors who can be tracked and cross-promoted)—a fact that has brought advertisers knocking.

"Kaboose is one of only a handful of Canadian companies that is benefiting from the significant shift in advertising spending from traditional media to online media," Ron Shuttleworth of Jennings Capital Inc., said in a recent report.

"As the company scales and solidifies its position as a pre-eminent destination for families, we expect that Kaboose should capture more share of advertising budgets and higher rates," he wrote.

Last year, the advertising dollars poured in: Kaboose revenues swelled 200% to \$11.7 million and in the third quarter of last year, the company recorded its first ever profit, \$500,000 (a \$1-million turnaround from the same period in 2005). All in all, sales have grown more than 1,000% since 2003. And the company has built an impressive list of business partners, including the likes of **McDonald's Corp.** (NYSE: [MCD](#)), **Target Corporation** (NYSE: [TGT](#)), **Hewlett-Packard Company** (NYSE: [HPQ](#)), **DaimlerChrysler AG's** (NYSE: [DCX](#)) Mercedes-Benz subsidiary, **Mattel, Inc.** (NYSE: [MAT](#)) and **M.J. Heinz Company** (NYSE: [HNZ](#)).

Richard Fetyko, an analyst with Merriman Curhan Ford & Co., wrote in a report last month that Kaboose has made significant recent strides to expand its user audience, which in turn is helping the company develop more partnerships and increase ad



revenue. And he pointed to developments expected this year that will keep the company growing, such as Kaboose gearing up to take advantage of the technology that will allow its content to be shared through a virtual grapevine of blogs, discussion forums and video- and photo-sharing capability—the same strategy that has made huge successes of MySpace, YouTube and other social-networking sites that allow users to share and showcase their own content.

Although it's a leader in the sector, the \$250 million small-cap is a minnow in a market dominated by big fish. But its small stature hasn't diminished the kudos that have been heaped upon it by market watchers. The half-dozen analysts that track the stock all recommend it as a strong buy for its growth prospects, contributing to the stock being driven up almost 50% this year and 136% over the past 12 months.

Following first-quarter results that exceeded expectations, Jennings Capital's Shuttleworth in May raised his 12-month price target on Kaboose shares to C\$5.00 from C\$3.90. Sales skyrocketed to C\$6.6-million, from C\$2.3-million a year earlier, and its balance sheet remained clear and debt-free. "We continue to believe that Kaboose is a potential takeover target for a larger diversified media conglomerate," he added. On June 29, the stock closed at C\$3.15 on the Toronto Stock Exchange.

Arinder Mahal, an analyst with Dundee Securities Corp., also raised his price expectations in May, setting a one-year target of C\$4.75, up from C\$4. He is bullish in light of the company's recent efforts to revamp a few of its sites (with new looks and content), forge lucrative partnerships and build a strong management team.

Speaking of management, Kaboose has brought in an infusion of industry talent with significant online media experience. Former managing editor of [Parents.com](#), site director of [AmericanBaby.com](#) and editorial lead at Time Inc.'s [Parenting.com](#), Michelle Shinseki, oversees the development of parenting content, and the introduction of Kaboose's interactive suite of community and photo tools to a new generation of users. Will Ellison, former Director of Interactive Marketing with Publisher's Clearing House, heads up the team responsible for online marketing initiatives. Michael Fogarty, the company's new chief revenue officer, previously worked on marketing and sales strategies at Time Warner Inc.'s AOL.

"The continued addition of top tier industry talent supports our strategy of increasing our share of the family Internet market," said Jonathan Graff, president of Kaboose, in a June 13 news release. "These talented individuals will play an important role in further developing the Kaboose family of online properties into the foremost online destination for moms and their families."

Perhaps most encouraging is the market's huge potential. According to America Online/DMS, AOL Time Warner's research unit, 71% of mothers use the Internet for product information and advice, spending just shy of 17 hours per week online researching parenting, education, health, food, movies and fashion. Nearly 95% of mothers have ordered a product or service online. In the United States alone, there are more than 20 million mothers who have children under 12, making \$1.5 trillion worth of purchasing decisions annually.

Now that's anything but child's play.