

Cyberplex Brings Accountability To Online Advertising

By Jennifer Walter

Of DOW JONES NEWSWIRES

TORONTO (Dow Jones)--Cyberplex Inc. (CX.T) is betting big on a business model that brings more accountability to online advertising.

The Toronto company specializes in performance-based online advertising, which means Cyberplex doesn't get paid unless it delivers measurable results. It's called Cost-Per-Action advertising (CPA), and clients only pay when the online ad generates the "action" they're looking for.

That action could be a sale, a lead, or an e-mail submission, but the advertiser isn't on the hook unless Cyberplex can entice Internet users to click on the ad and follow through.

The CPA model is clearly working for Cyberplex - the company posted record revenue in the last two quarters, hitting C\$32 million in the first quarter, more than four times the level of a year earlier and the biggest quarter in company history. The company has also had four straight profitable quarters, posting net income of C\$4.9 million in the fourth quarter and C\$4.1 million in the first quarter.

Geoffrey Rotstein, Cyberplex's president and chief executive, told Dow Jones that the performance-based model is especially appealing to advertisers during a recession, when every advertising dollar is precious. "Historically, 100% of the risk was borne by the advertiser," Rotstein said. "What we're doing is re-allocating the risk."

Cyberplex helps clients develop online ads, and places them with its network of online affiliate publishers. The Web publishers who carry the ads decide which campaigns they carry on their sites. Everything is tracked, and when the advertiser gets what it wants, everybody gets paid.

Cyberplex does face some challenges. During a conference call in early May to discuss first-quarter results, several analysts raised concerns about the company's need to diversify its client base. More than 70% of its revenue comes from the health and wellness sector, with some contribution from the finance, dating and business-opportunity segments.

Social media has been another challenge for Cyberplex. The company is still

trying to improve results for its campaigns on social networking sites such as Facebook and MySpace, and it has responded by opening a small lab that's devoted to developing new approaches to social media.

One product the company developed is called shopcauses.com, a Facebook application that lets online shoppers donate a portion of what they pay to a favorite charitable cause.

Cyberplex is also facing more competition as other online advertising firms embrace the CPA model, but Rotstein said the increased competition isn't having a major effect on the company, since many newcomers are still struggling to produce solid results.

One analyst noted that the two record quarters of revenue show the potential of the performance-based advertising model, but he said the company is still struggling to attract major advertisers and the agencies that plan their campaigns.

"It's a different concept than what most agencies have done in the past," Rotstein said. "But we think in the near future, large companies will soon be drawn to the accountability that comes with a performance-based advertising campaign."

Despite the challenges, the analyst noted that Cyberplex is in an "aggressive" growth mode with the goal of expanding its client base, and moving beyond North America into international markets.

In mid-May, the company raised C\$15 million through a share offering at C\$1.60 a share. The stock closed Tuesday at C\$1.69.

Rotstein said the new capital will be mostly used for working capital and to expand product offerings, but he added that the company is still looking for acquisition opportunities that could help it enter new markets.

Cyberplex is preparing for a seasonal slowdown in the coming quarters, as Web traffic generally declines over the summer, but Rotstein says the long-term plan is to maintain momentum and plan for expansion.

"We don't think this is a blip," Rotstein said. "We think advertisers are looking for some accountability, and we think that when the economy rebounds, the performance-based space will seem even more appealing."

Company Web Site: <http://www.cyberplex.com>

-Jennifer Walter, Dow Jones Newswires, 416-306-2028
jennifer.walter@dowjones.com

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