

## Xoom Corp.

NYSE:XOOM

**Analyst:** Tom Kaczmarek

**Sector:** Technology

**BUY**

Price Target: \$22.11

### Key Statistics as of 3/5/2015

Market Price:	\$16.09
Industry:	Consumer Finance
Market Cap:	\$622.7M
52-Week Range:	\$13.14 - \$28.20
Beta:	2.05

### Thesis Points:

- Underestimated international growth
- Heavily oversold in last five months
- Implementation of profitable new product
- Growing market share

### Company Description:

Xoom Corporation (XOOM) was founded in 2001 as a digital money transfer service which specializes in international transactions. Unlike many competitors, all Xoom transactions occur digitally, transferring funds from customers' bank accounts to over 30 countries around the world. Xoom has developed a primary customer base of immigrants who require a low cost transfer service in order to send funds to their family abroad. Currently, XOOM shares are trading at a 35% discount from one year ago, as a result of external theft and management issues. With these short-term issues resolved, continued international expansion and efficiency improvements will allow the company to return to a more stable price.



## Thesis

Xoom Corporation is in the early stages of recovering from a turbulent 2014. Over the past twelve months, stock price has fallen over 35%, despite robust organic growth and a successfully proven expansion model. This company has been strongly oversold due to unfavorable press which has little long-term impact on the firm's ability to operate and thrive. The partnerships which Xoom has made with utility companies and international banks to meet the needs of the remittance funds market has made the small company a strong competitor against large legacy rivals. This niche company has created the most convenient and cost-effective way for their customers to transfer funds, and is growing considerably with that trend expected to continue in 2015. Investor sentiment is beginning to recover from sour (and over-exaggerated) notes in the press, but investor uncertainty has kept stock price suppressed over the past five months. At this time a BUY is recommended.

## Growth

Date	Revenue, Adj: Growth %, YoY	Gross Profit, Adj: Margin %
FY2014	30.1769	71.4522
FY2013	52.727	68.8379
FY2012	59.968	66.5329
FY2011	52.3282	63.8645

Xoom's market share in the remittance market is a testament to the company's continued growth. Xoom has grown from serving nearly 1% of the market in 2010 to a 7% market share at the end of 2013, with over 20% growth in 2014. Xoom Corp has expanded rapidly in the past five years due to strong marketing efforts and an increasingly developed list of partner banks. Xoom's exposure has increased to serve 31 countries, with most customers using the service to transfer funds to family members in Latin America and Asia. With the exception of the \$30 M loss of cash as a result of theft, the company would have continued to see profit in 2014 for the third straight year. While Xoom is growing its topline at a rate of 30% annually, the company has also done a surprisingly good job increasing efficiency. While long term guidance for gross profit margin was given as 65-70%, this company has already exceeded that benchmark in three of the last four quarters. Following the acquisition of BlueKite in February 2014, Xoom

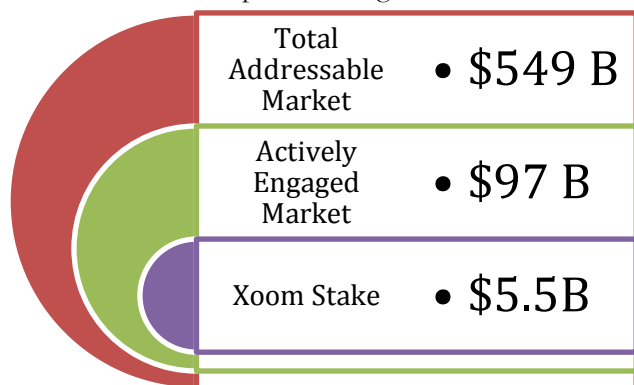
invested heavily into adopting and converting the existing BlueKite headquarters in Guatemala City into a Xoom office. Following the completion of the project, Xoom relocated 50 of the firm's 295 employees. This has proven to be a cost savings measure, while also helping to increase Xoom's Latin American expansion. This has proven tremendously successful as in Q4 Mexico was proven to be the fastest growing nation for Xoom transactions. Revenue growth is expected to be 22% for the year 2015, primarily as a result of increased marketing efforts and the introduction of Xoom's Bill Pay service.

## Expansion

While Xoom is growing rapidly in the 31 countries currently serviced, the company has identified other significant markets which will allow for continued organic growth in the coming years. Globally, the World Bank predicts an 8% CAGR in remittance transfers through 2016. While this represents healthy organic macro-level growth, Xoom is poised to further grow through international expansion. On September 22<sup>nd</sup>, Xoom announced a partnership with ICICI, the largest bank in India. In February, Xoom continued investing in India, announcing partnerships with the Bank of Baroda and the Union Bank of India. These partnerships will allow Xoom's customers to deposit money into recipients' bank accounts anytime, any day, including bank holidays. By developing an extensive network of bank partners in India, this market now accounts for over 13% of Xoom's revenue. This is a model which the company has proven to be successful, and plans to replicate in other nations. In the company's Q1 2014 Earnings Call, John Kunze (President and CEO) stated "We certainly hope to build or open up more receive market in the next six to 12 months, with a first priority on China". Service is now available in China, although the company will not give any guidance for revenue through China for the next year. Analyst expectations are considering the Chinese market to not be material for the next twelve months for Xoom, so any realized gains sooner than 2016 will be unforeseen.

Xoom has seen outstanding growth in both Mexico and India in the past year, growing at 48% and 40% respectively. Although some critics believe that Xoom has reached near maturity in these markets, growth for both segments is estimated at 20% for the next year due

to increasing customer acquisition and reacquisition of old customers. Currently operating in 31 countries, Xoom is exposed to \$97 B of the \$549 B remittance market, more than enough room for this low priced convenience service provider to grow and thrive in.



## Litigation

Although Q3 EPS achieved a 207% surprise over expectations, the price of shares plummeted 25% in next day trading as a result of slightly lowered guidance and resignation of CFO Ryno Blignaut. Although over the earnings call it was stated that Mr. Blignaut was not leaving based on disagreement with the firm, Rosen Law Firm announced an investigation of Xoom Corp. the next day on claims of issuing misleading business information. While this report was concerning and significantly impacted the stock price of the company, not material evidence has been presented and the case has stagnated. Stock price has still not recovered from the report, which may represent a market which has not adjusted for a false alarm.

On December 30, 2014, Xoom Corp announced that the firm had been a victim of fraud which resulted in a \$30.8 M loss. This fraud was the result of email fraud which entered the companies finance department and managed to steal \$30 M of corporate cash. While this act of fraud was embarrassing to the company, customer data had not been breached and additional security measures have been taken by the company. On the same day, the company's new CFO Matt Hibbard, who had been actively in his position for 30 days, announced his resignation. It was announced that former CFO Ryno Blignaut would assume the position until a replacement was found. This timeline indicates that Hibbard's resignation (which came one day after the fraud discover) is most likely related to the embarrassing employee impersonation fraud which managed to steal \$30 M from the company, but does not equate to a 16%

loss of value which occurred on the following day.

## Increasing Retention

Revenue calculations for Xoom can be estimated using a similar model to a subscription based business due to the high rate of customer retention. Xoom customers make on average 2.7 transactions per quarter, roughly once per month. This figure strongly correlates to the primary customer base of immigrants who send remittance payments to their home country on a monthly basis. Xoom fills a niche in this market by providing convenience and safety. In many developing countries where a majority of remittance funds are traveling to, it is either inconvenient or unsafe for recipients to travel to wire transfer stations like Western Union offices to receive cash. It is not uncommon for recipients to be robbed in certain countries by criminals who prey on wire transfer users. Additionally, many recipients live in rural areas or areas where it is difficult to travel to a wire transfer station. By remotely paying utility bills from the U.S., the amount of funds to be received in cash is eliminated by directly depositing the funds to the recipients' bank account.

Xoom is continuing to meet the needs of this audience through integration of the company's Bill Pay option which launched successfully in the last two quarters. Bill Pay has established direct connections with a network of utility companies around the world, which allows bills to be paid remotely and instantly from a mobile phone or desktop. Xoom is utilizing a well-developed and growing network of utility companies to create an additional revenue stream for the firm while also creating a more convenient experience for the user. By further developing the Bill Pay option, Xoom has been able to further capitalize on a major current use of the company's services. Each bill paid through Bill Pay charges a flat \$2.99 charge, which will create material earnings expected in Q2 and Q3.

While Bill Pay will help continue consistent revenue and spur short term growth, this service also helps to retain users. By creating the most convenient international bill payment option at a lower cost than many competitors, Xoom has experienced tremendous customer retention levels. Due to Xoom offering the ability to pay utility bills in foreign countries through their services, it is unlikely that customers would abandon the company's services due to: the company's competitive rates, ease of

use, and inconvenience of migrating to a different service. Xoom has seen mobile app usage increase dramatically, now accounting for 55% of transactions. Customer reviews indicate that the mobile application is generating more frequent transactions and also increasing customer retention.

## Competition

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Xoom Corp faces competition from other boutique money transfer services as well as the current industry dominator, Western Union. Unlike Western Union and traditional brick and mortar money wiring services, Xoom transactions do not use cash. Xoom transactions are exclusively executed through checking accounts and credit/debit cards. This allows for several competitive advantages, most prominently being lower overhead. Since Xoom transactions are entirely electronic, lower base rates for transactions can be established. Considering that the typical transaction through Xoom is \$200-\$300, it is important to the customer to keep transaction costs as low as possible. The typical Xoom transaction will cost \$5-\$6 for transfers under \$2,500. This is in contrast to Western Union fees which can average 9% of the total remittance value.

Other direct competitors include:

- MoneyGram International (MGI)
- VersaPay (VPY)
- Bitcoin (Privately Held)
- Cashpin Corp (Privately Held)

While these companies also offer money transfer services both domestically and abroad, these US based companies have had difficulty expanding internationally. Cashpin Corp. has faced tremendous difficulty reaching a broad market, while Bitcoin has been perceived as unreliable due to its non-centralization and complex interface. By having a user-friendly and adaptive product with a money back guarantee which is enforced by inception to completion tracking, Xoom has been able to not only adopt but retain a loyal customer base.

## Summary

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Xoom Corporation is a company which has faced a strong sell off following a CFO resignation and a case of external theft and fraud. As a result, share price has fallen 35% and is now in the process of recovering.

Short interest in the company has been declining significantly over the past two months, reaching 8.36 from an all-time high of 15.15 in January. While Xoom has not yet achieved the same level of profitability as larger competitors, the company's product has been proven to be useful in the marketplace. The number of active users has increased 21% year-over-year, and high retention levels will allow for consistent revenue. Gross margin long term guidance has been guided up to 71.5%, with long-term plans to create bottom line growth from a rapidly growing topline. Xoom has met the needs of a very particular group of customers which larger competitors have not had interest in meeting the needs of. Xoom's growing network of utility companies and banks will solidify revenue expectations for the company. Additionally, over the next twelve months, Xoom will begin realizing material gains from the Bill Pay service and new business in China. For these reasons, a BUY is recommended with a target price of \$22.11.

**Xoom Corporation (XOOM)–3/5/2015** Last Price: \$16.09 Fair Value: \$19.31 Target: \$22.11 Target Div.: \$0 Upside: 37% **LONG**
**Sector: Information Technology, Group: Software and Services, Industry: Internet Software and Services**

 Market Cap.: 622.7M 3mVol.:0.51M Short Int.: 4.1% Last Div.: NA Instit. Hold.: 74.2% Analysts' Rec.: Outperform Poison Pill: NO  
 Shares Out.:38.7M Beta: 1.45 Short Cov.: 8.06 Next Div.: NM Insiders Hold.: 3.8% Analysts' Target: \$21.73 int+Capex Cov.: C

Description: Xoom Corporation provides digital consumer-to-consumer online money transfers services worldwide. IPO on 2/15/2013.

ASSUMPTIONS	12/31/2014	3/31/2015	6/30/2015	9/30/2015	12/31/2015	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
FISCAL YEAR	2014	2015	2015	2015	2015	2015	2016	2017	2018	2019
FISCAL QUARTER	LTM	Q1	Q2	Q3	Q4	NTM	NTM+1Y	NTM+2Y	NTM+3Y	NTM+4Y
REV Growth (QOQ)	30%	0%	11%	0%	9%	22%	18%	10%	8%	6%
COR/REV	29%	28%	27%	27%	26%	27%	26%	26%	26%	26%
SGA/REV	45%	44%	42%	42%	40%	42%	41%	41%	41%	41%
R&D/REV	23%	23%	22%	22%	21%	23%	22%	22%	22%	22%
Other Op. Exp./REV	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
DPR/REV	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
OCA/REV	60%					55%	53%	51%	50%	48%
OCL/REV	16%					16%	16%	16%	16%	16%
<b>INCOME</b>	<b>12/31/2014</b>	<b>3/31/2015</b>	<b>6/30/2015</b>	<b>9/30/2015</b>	<b>12/31/2015</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Total Revenue	\$159.08	\$43.86	\$48.86	\$48.67	\$53.16	\$194.54	\$229.56	\$252.52	\$272.72	\$289.08
Cost of Revenues	\$45.42	\$12.30	\$13.05	\$13.00	\$13.79	\$52.14	\$60.08	\$65.63	\$71.03	\$75.37
SG&A Exp.	\$70.88	\$19.20	\$20.38	\$20.29	\$21.52	\$81.39	\$93.78	\$102.43	\$110.86	\$117.63
R&D Exp.	\$36.78	\$9.96	\$10.57	\$10.53	\$11.17	\$42.23	\$50.50	\$55.17	\$59.70	\$63.35
Other Op. Exp.	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
D&A Exp.	\$3.93	\$1.08	\$1.21	\$1.20	\$1.31	\$4.81	\$5.67	\$6.24	\$6.74	\$7.14
Op. Exp. (excl. D&A)	\$149.15	\$40.39	\$42.80	\$42.62	\$45.16	\$170.96	\$198.69	\$216.99	\$234.85	\$249.21
EBITDA	\$9.94	\$3.47	\$6.06	\$6.06	\$6.00	\$23.59	\$30.87	\$35.53	\$37.87	\$39.87
Net Interest Exp.	-\$1.09	\$0.26	\$0.26	\$0.26	\$0.26	\$1.02	\$1.92	\$2.92	\$4.01	\$5.28
Other "non-op." Exp.	-\$0.22	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Unusual Items	-\$30.97	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Income Tax Exp.	\$0.05	\$0.99	\$1.92	\$1.92	\$2.60	\$7.43	\$10.17	\$12.08	\$13.18	\$14.25
Earn. from Cont. Ops.	-\$26.31	\$1.65	\$3.19	\$3.19	\$4.34	\$12.38	\$16.95	\$20.13	\$21.97	\$23.75
Ext. earnings (loss)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Min. Int. in Earnings	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Net Income	-\$26.31	\$1.65	\$3.19	\$3.19	\$4.34	\$12.38	\$16.95	\$20.13	\$21.97	\$23.75
Total Dividends Paid	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>FIN. POSITION</b>	<b>12/31/2014</b>	<b>3/31/2015</b>	<b>6/30/2015</b>	<b>9/30/2015</b>	<b>12/31/2015</b>	<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Cash & ST Investments	\$178.99					\$178.99	\$178.99	\$178.99	\$178.99	\$178.99
Receivables	\$18.59					\$20.90	\$23.77	\$25.16	\$26.63	\$27.10
Inventory	\$0.00					\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Other CA	\$76.58					\$86.10	\$97.90	\$103.63	\$109.73	\$111.66
Operating CA	\$95.17					\$107.00	\$121.67	\$128.78	\$136.36	\$138.76
Net PP&E	\$15.67					\$16.11	\$16.51	\$16.88	\$17.22	\$17.51
Intangibles	\$14.16					\$14.16	\$14.16	\$14.16	\$14.16	\$14.16
Other Assets	\$11.73					\$11.73	\$11.73	\$11.73	\$11.73	\$11.73
<b>Total Assets</b>	<b>\$315.72</b>					<b>\$327.99</b>	<b>\$343.06</b>	<b>\$350.55</b>	<b>\$358.46</b>	<b>\$361.15</b>
Accounts Payable	\$0.98					\$1.20	\$1.41	\$1.55	\$1.68	\$1.78
Accrued Exp.	\$12.05					\$14.74	\$17.39	\$19.13	\$20.66	\$21.90
Other CL	\$13.04					\$15.95	\$18.82	\$20.70	\$22.35	\$23.70
Operating CL	\$26.07					\$31.88	\$37.62	\$41.39	\$44.70	\$47.38
Total Debt	\$28.00					\$17.35	\$9.73	\$0.00	\$0.00	\$0.00
Other Liabilities	\$5.89					\$5.89	\$5.89	\$5.89	\$5.89	\$5.89
<b>Total Liabilities</b>	<b>\$59.96</b>					<b>\$55.12</b>	<b>\$53.24</b>	<b>\$40.60</b>	<b>\$26.55</b>	<b>\$5.48</b>
Preferred Equity	\$0.00					\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Common Equity	\$255.77					\$272.87	\$289.82	\$309.95	\$331.91	\$355.67
Minority Interest	\$0.00					\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Total Equity</b>	<b>\$255.77</b>					<b>\$272.87</b>	<b>\$289.82</b>	<b>\$309.95</b>	<b>\$331.91</b>	<b>\$355.67</b>
<b>CASH FLOW</b>	<b>12/31/2014</b>					<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
NWC Spending	-\$33.82					-\$6.01	-\$8.93	-\$3.35	-\$4.26	\$0.28
CAPEX	-\$14.51					-\$5.25	-\$6.07	-\$6.61	-\$7.07	-\$7.43
Sale of intangible	\$0.00					\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Stock-Based Comp.	\$9.42					\$9.42	\$9.42	\$9.42	\$9.42	\$9.42
Unlevered FCF	-\$31.23					\$14.70	\$15.84	\$23.99	\$24.27	\$29.87
<b>WACC as of</b>	<b>3/9/2015</b>					<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Weight of Equity	94.1%					97.4%	98.8%	100.0%	100.0%	100.0%
Beta	1.45					1.45	1.45	1.45	1.45	1.45
Cost of Equity	14.5%					14.7%	15.0%	15.2%	15.3%	15.7%
Estimated Rating	C					BAA	BAA	BAA	BAA	BAA
Cost of Debt	0.0%					0.0%	0.0%	0.0%	0.0%	0.0%
WACC	14.2%					14.4%	14.8%	15.2%	15.5%	15.7%
<b>VALUATION as of</b>	<b>3/9/2015</b>					<b>12/31/2015</b>	<b>12/31/2016</b>	<b>12/31/2017</b>	<b>12/31/2018</b>	<b>12/31/2019</b>
Implied Ent. Val.	\$471.67					\$673.20	\$798.25	\$899.89	\$985.26	\$1,073.52
Net Debt	-\$150.99					-\$161.64	-\$169.26	-\$185.66	-\$203.03	-\$226.78
Pref. Eq. & Min. Int.	\$0.00					\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Implied Market Cap.	\$622.67					\$834.84	\$967.51	\$1,085.55	\$1,188.29	\$1,300.30
Diluted Shares	38.70					38.70	38.70	38.70	38.70	38.70
Price per Share	\$16.09					\$21.57	\$25.00	\$28.05	\$30.71	\$33.60
<b>FAIR VALUE as of</b>	<b>3/9/2015</b>					<b>3/8/2016</b>	<b>3/8/2017</b>	<b>3/8/2018</b>	<b>3/8/2019</b>	<b>3/7/2020</b>
Price per Share	\$19.41					\$22.21	\$25.57	\$28.55	\$31.25	\$34.16