

November, 10, 2017

Company Name: JCOM

Niall McGeever

Sector: Technology

Industry: Internet Software & Services

Current Price: \$75.52

Target Price: \$80.71

Company Description: J2 Global, Inc., together with its subsidiaries, engages in the provision of Internet services worldwide. It operates through two segments, Business Cloud Services and Digital Media. The Business Cloud Services segment offers cloud services to sole proprietors, small to medium-sized businesses and enterprises, and government organizations. The Digital Media segment operates a portfolio of Web properties, including PCMag.com, IGN.com, Speedtest.net, AskMen.com, TechBargains.com, Offers.com, and Everydayhealth.com. These websites offer products and advice based on the specific website.

BUY

Current Price:	\$74.96
Target Price:	\$80.71
Market Cap:	3.62 B
Dividend Yield:	1.97%
D/E:	85.36%
ROIC:	11.00%
WACC:	8.69%
EBITDA T12:	414.73M
OPM:Y:	29.90%

Catalysts:

- Short Term(within the year): The constant growth of the Cloud Segment
- Mid Term(1-2 years): The growth of the Digital Media Segment
- Long Term(3+): The success of IGN



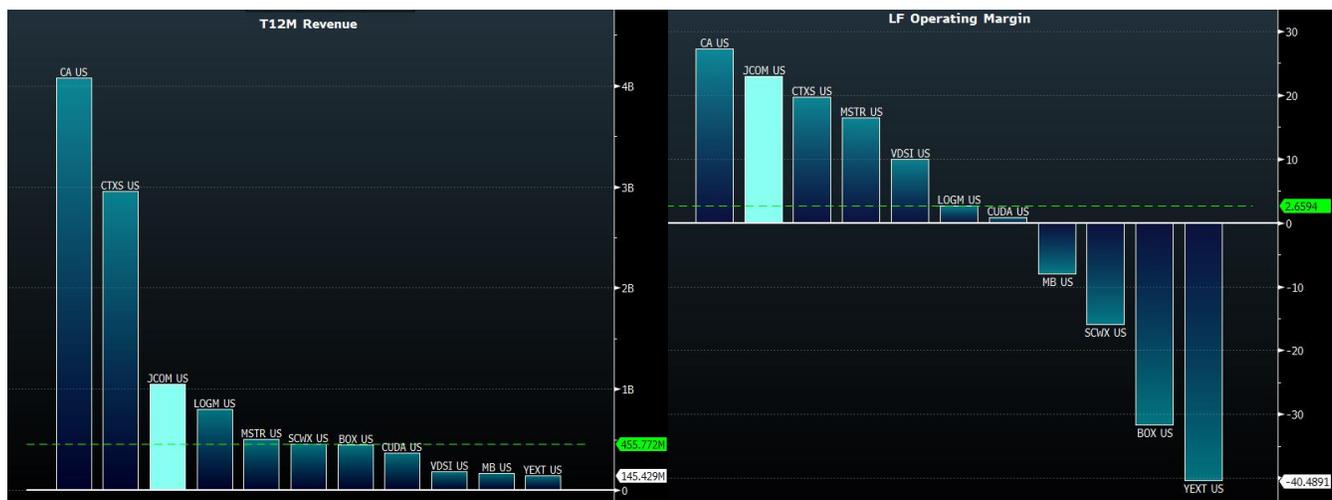
Source: Bloomberg

Thesis:

J2 Global will continue to increase their revenue with the stable growth in their Cloud Segment and the rapid growth in their Digital Media Segment. The Cloud Segment will continue to add business due to the increase in demand from health, pharma, legal and finance industries. The Digital Media Segment will continue to grow and add revenue as the number of visitors to their websites increase. These visitors will increase revenue through the commission that J2 Global will receive from the increased number “viewable” impressions that they get from their websites. The success of IGN will give J2 Global a platform into the video game sphere. J2 Global is positioned for growth in both of their segments, which will increase the stock price in the short and long term.

Earnings Performance:

J2 Global’s stock price is most affected by its earnings. In the third quarter earnings call, J2 Global recorded an all-time high revenue of \$273.62 million, which was up 30.2% year over year. This beat the earnings estimate by \$0.78 million. There are several positive to take away from the earnings call. The first is that the Digital Media Segment hit an all-time revenue high of \$128 million, which is up 91% from the prior year. This shows that the company is continuing to expand in this market. The second is that the Cloud Segment has also increased its revenues year over year. J2 Global was able to increase its EBITDA margin 16.7% to \$111.3 million from Q3 2016. J2 Global also ended the quarter with \$402.5 million in cash and investments. This now gives them more flexibility when it comes to potential acquisitions, research and development. J2 Global has also kept their forecast for the year the same with predicted revenues between \$1.107 and \$1.147 billion. The company has rewarded shareholders with a dividend raise of 2.6%, which now brings the dividend to \$0.395 per common share. This shows that management is taking the right steps to make shareholders happy. Amongst its competitors, J2 Global’s has a T12 Revenue of \$1.05 billion, which is above the industry median. The market caps of CA US and CTXS are both above \$12 billion, which explains their revenue being larger. J2 Global has the second highest operating margin at 16.34% amongst its competitors, which shows they are efficiently utilizing costs. J2 Global has T12 EBITDA of \$389.77 million, which is above the industry median. I expect J2 Global to exceed their earnings estimates in the next periods, which will increase the stock price.

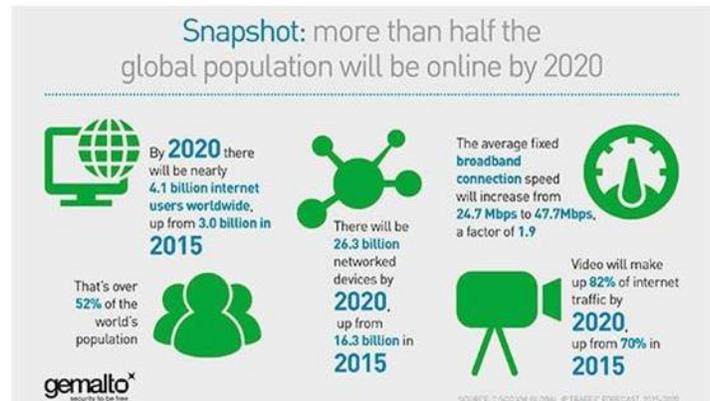




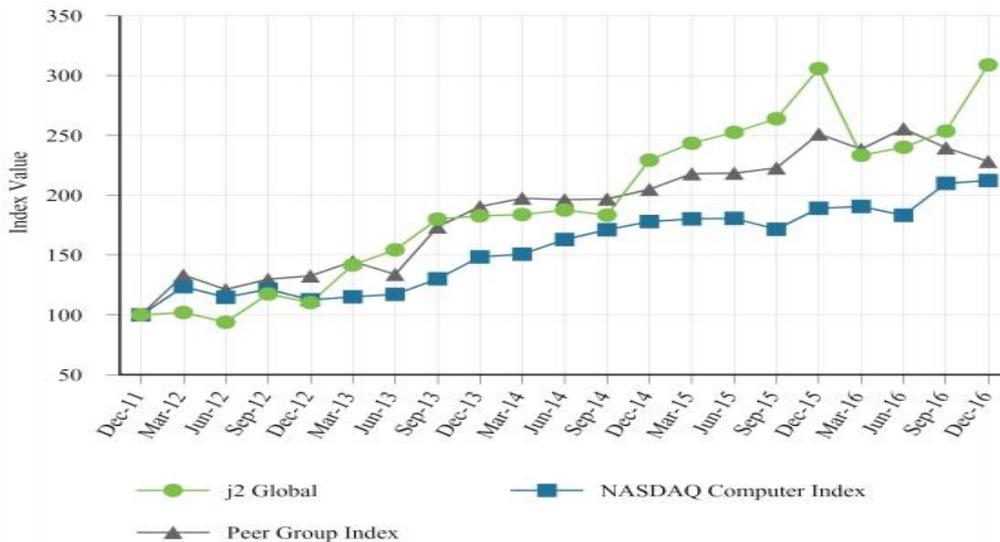
Source: Bloomberg

Industry Outlook:

JCOM is well positioned in the internet software and services industry because of the diversification they have with their products. In their Cloud Segment, J2 Global is able to offer cloud services as well as online fax services. As the amount of data continues to increase so will the need for cloud storage. The online fax services segment has continued to expand as the need for information to be transmitted faster continues to increase. In the Digital Media Segment, the multiple websites they operate continue to see an increase in traffic. J2 Global continues to deliver compelling content, which will lead to an increase in ad revenue. This is because with more traffic to the websites, the greater chance of a customer clicking on an ad.



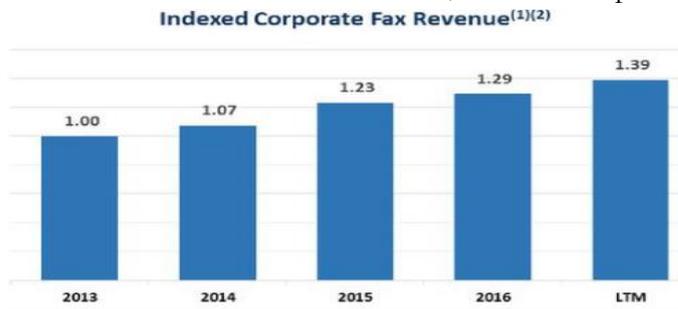
Since J2 Global gets commission on “viewable” impressions, they want customers to click on ads when they are viewing content on their website. Cisco predicts that by 2020 more than half of the global population will be online which would make 4.1 billion internet users up from the 3.0 billion users in 2015. This shows that J2 Global will have an increased amount of potential viewers, which will drive growth if they can attract them to their websites. From 2011 to 2016, the NASDAQ Computer Index has increased from \$100 to \$212.21 and the Peer group Index has increased from \$100 to \$228.30. Over the same period, JCOM has outperformed both of these indexes by returning \$308.78. This shows that JCOM continues to grow and add value as a company.



Source: J2 Global 10K

Cloud Segment:

The Cloud Segment remains J2 Global’s cash cow. This quarter saw an all-time high in revenue for the cloud connect segment, which amounted to \$97 million. Within this segment, fax revenue came in at \$80 million, which grew 3.5% over the prior year. The Voice segment recorded a revenue of \$17 million, which was up 10% from the previous year. J2 Global successfully implemented Fax87 into its eFax software, which is the world’s leading online fax service. The corporate fax revenue has continued to expand since 2013. The corporate fax revenue has a CAGR of around 9% since 2013. J2 Global has positioned themselves well with the growth for fax demands with their application programming interface software. This has allowed them to make changes to subroutine definitions, protocols and tools to their fax interface to meet any changes. The increase in demand stems from compliance-oriented verticals such as health, pharma, legal and finance. These industries continue to expand to the demand for fax will continue to expand as well. The Cloud Backup produced revenue of \$28 million, which has a revenue CAGR of around 96% since 2013. This is important to note because this should continue to increase now that they have an acquired and integrated cloud backup in Europe. This shows that they can continue to expand their revenue in Europe while being taxed at an Irish tax rate of 12.5%, which is beneficial to them. I expect the Cloud Segment to continue to grow at their 3-year growth of 13%.



Total Cloud by Unit	Cloud Connect (Fax/Voice)		Cloud Services		IP Licensing		Total Cloud	
	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017	Q3 2016	Q3 2017
Revenues	\$ 92,599	\$ 96,882	\$ 49,625	\$ 47,693	\$ 1,119	\$ 1,212	\$ 143,341	\$ 145,787
Adj. Non-GAAP Gross Profit ⁽¹⁾	76,876	79,936	35,423	35,243	1,116	1,212	113,415	116,391
Adj. Non-GAAP Operating Profit ⁽¹⁾⁽²⁾	\$ 49,122	\$ 51,283	\$ 22,670	\$ 20,810	\$ 446	\$ 710	\$ 72,239	\$ 72,803
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 50,521	\$ 52,450	\$ 23,674	\$ 21,876	\$ 446	\$ 710	\$ 74,641	\$ 75,036
Adjusted EBITDA %	55%	54%	48%	46%	40%	59%	52.1%	51.5%

Source: J2 Global 8K Slides

Digital Media:

J2 Global's Digital Media segment continues to see large growth. Quarter 3 revenue of \$128 million was up 91% from Q3 '16. J2 Global was also able to increase their non-gaap operating profit and adjusted ebitda. This is mainly due to the number of multi-platform visits increasing to 1.4 billion. This number should continue to increase as J2 Global strengthens their own content and acquires new companies. The Speedtest app that J2 Global owns has passed over 300 million installations as there were over 16 million downloads in quarter 3. Mobile tests for speed performance hit a record of 600 million, which shows that people now more than ever are concerned with the speed of their electronics. This should continue to expand as wireless companies continue to say that their networks are the fastest. Commerce Revenue has grew 34% in Q3 '17 over Q3 '16. This is due to the increase in shopping clicks to third party websites off ads on J2Global websites. Shopping clicks reach a quarter high record of 36.3 million with no signs of slowing down. As more people spend more time on the internet the more likely, they are to be enticed with buying something online. The real surprise is the increase in international commerce where revenue has grown 462% since the prior year. It is vital for J2 Global to continue to increase their global revenues so they can continue to expand their revenue base. The Digital Media Segment for J2 Global looks promising for the future. I expect the Digital Media Segment to grow at 34% which is a little above their 3-year growth.



By Segment	Digital Media	
	Q3 2016	Q3 2017
Revenues	\$ 66,774	\$ 127,829
Adj. Non-GAAP Gross Profit ⁽¹⁾	61,159	115,564
Adj. Non-GAAP Operating Profit ⁽¹⁾⁽²⁾	\$ 21,048	\$ 34,674
Adjusted EBITDA ⁽¹⁾⁽²⁾	\$ 23,917	\$ 40,063
Adjusted EBITDA %	36%	31%

Source: J2 Global 8K Slides

IGN:

IGN is a video game and entertainment company owned by J2 Global. IGN is currently expanding their programming and distribution through many channels. The first channel is through Disney XD. IGN made a show called “The IGN Show” which debuted in July. This show is 30 minutes and covers video game content and event coverage. It is important that IGN continue to make these shows with relevant content to keep viewers intrigued in the lineup. The second channel is through a partnership with Facebook. IGN’s lineup includes mid-form featurettes with themes such as cosplay makeovers and video game previews. This is another important platform for IGN because Facebook has just launched their Watch platform and if their shows get positive feedback then Facebook will renew them. The third channel is a partnership with Twitter where IGN broadcast 13 hours of live programming from San Diego Comic-Con. This event was a resounding success with 68.7 million video views for the week of the event. This shows that viewers are interested in this material. IGN could have Facebook and Twitter compete against each other for who wants to broadcast the next Comic-Con. I expect IGN to be a long-term catalyst when they get more exposure and get show contracts renewed and expanded.



Ownership:

The insider ownership in J2 Global has remained consistent over one year. The small decrease in shares owned by insiders dropped slightly because the old CEO, Nehemia Zucker sold off 28,789 shares. This is to be expected when a CEO steps down but he still owns 171,866 shares.

Compare Current Stats Against		11/08/16	
Insider		11/06/16	Curr
1) % of Shares Held		4.68	4.50
			Change
			-0.18

The ownership in J2 Global has not had any drastic changes in the last year. The most significant change in ownership of stocks that Hedge Fund Managers have reduced their shares by 1.38%. This is relatively insignificant because they only owned 3.63% at the beginning of the year so they were not going to alter the stock price drastically by selling off. Investment advisors, pension funds, insurance companies and holding companies all increased positions, showing that it is a stable investment. I expect the stock to increase in price.

Compare Current Stats Against		11/08/16	
Ownership Type		11/06/16	Curr ↓
1) Investment Advisor		87.04	87.61
12) Individual		3.90	3.80
13) Hedge Fund Manager		3.63	2.25
14) Pension Fund		1.55	2.00
15) Insurance Company		1.27	1.37
16) Sovereign Wealth Fund			1.10
17) Bank		1.15	1.06
18) Holding Company		0.10	0.49
19) Government		1.24	0.20
20) Endowment		0.06	0.06
21) Brokerage		0.03	0.03
			Change
			+0.57
			-0.10
			-1.38
			+0.45
			+0.10
			-0.09
			+0.39
			-1.04
			0.00
			0.00

Source: Bloomberg

J2 Global vs. Competitors:

JCOM has above average margins across the board. It is important to note that their ROIC is higher than their WACC, which means that the projects they are investing in are creating value for the company. J2 Global's operating margin is at 29.90%, which is well above the industry median of 8.81% that shows that they are operating efficiently. The one concern that could be had is the debt/equity percentage of 85.39%. However, this can be nullified because they have over \$400 million in cash and short-term investments, which would reduce the debt/equity ratio down to the median average. This chart shows that J2 Global is in the upper class of the internet software & services industry.

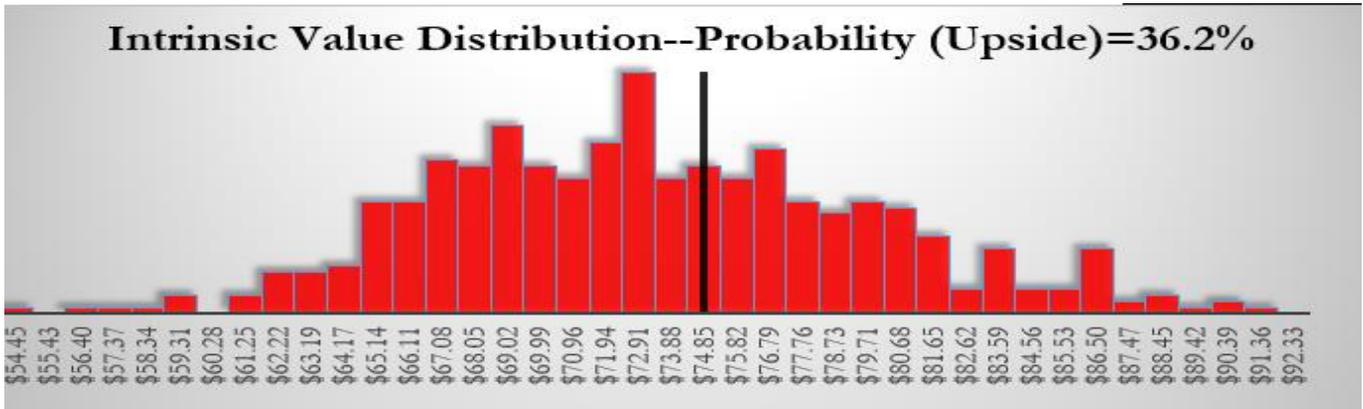
Name (BICS Best Fit)	Mkt Cap (USD)	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	P/E	ROE	Dvd 12M Yld	ROIC:Y	WACC	EBITDA T12M	OPM:Ybt/Equity:Y	
Median	2.89B	10.15%	6.58%	24.06	12.47%	1.70%	9.13%	11.30%	218.15M	8.81%	51.89%
100) J2 GLOBAL INC	3.62B	21.29%	21.14%	24.33	16.06%	1.97%	11.00%	8.69%	414.73M	29.90%	85.36%
101) BOX INC - CLASS A	2.89B	31.68%	27.52%	--	-216.47%	--	-88.33%	12.72%	-116.43M	-38.21%	100.95%
102) MINDBODY INC - CLASS A	1.48B	37.14%	65.48%	--	-9.10%	--	-18.51%	13.23%	-6.23M	-15.34%	15.20%
103) CITRIX SYSTEMS INC	12.68B	4.36%	37.35%	23.78	25.59%	--	18.42%	9.70%	848.22M	22.75%	54.73%
104) YEXT INC	1.09B	38.49%	-56.18%	--	--	--	-345.24%	9.46%	--	-34.36%	--
105) MICROSTRATEGY INC-CL A	1.53B	-3.34%	-14.17%	20.54	13.25%	--	17.40%	12.04%	106.29M	21.02%	0.00%
106) CA INC	13.60B	0.27%	7.13%	19.00	12.47%	3.14%	10.90%	8.72%	1.41B	28.82%	49.06%
107) ORACLE CORP	211.22B	1.84%	6.03%	21.38	19.42%	1.42%	10.52%	8.03%	16.06B	35.19%	106.75%
108) LOGMEIN INC	6.31B	23.74%	-17.29%	55.33	6.51%	1.04%	7.73%	11.30%	330.01M	8.81%	15.30%
109) VASCO DATA SECURITY I...	544.30M	-20.35%	-75.44%	64.52	3.25%	--	3.73%	11.38%	17.95M	4.99%	0.00%

Source: Bloomberg

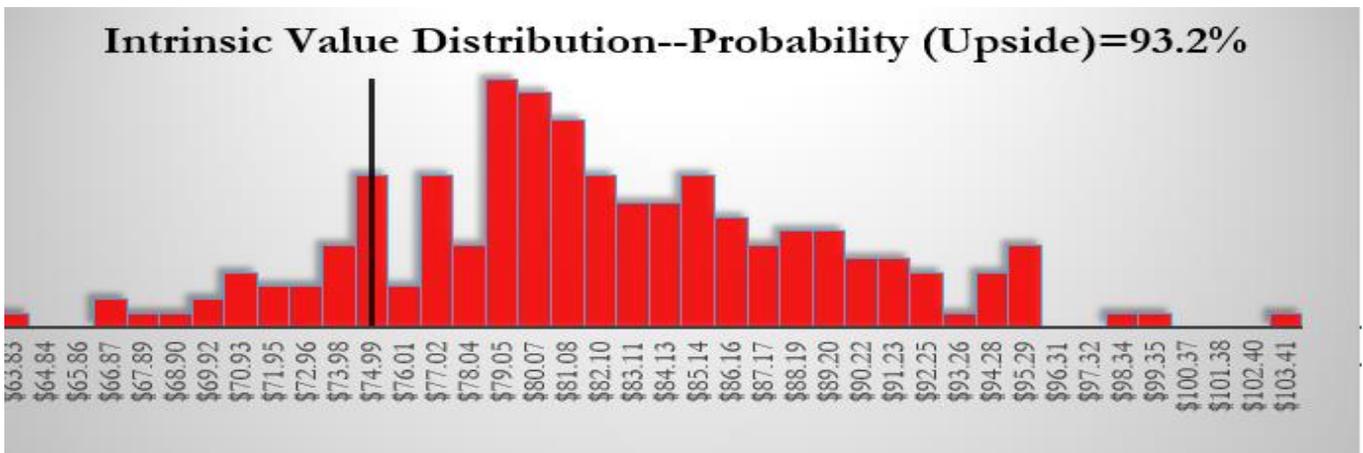
Conclusion:

In conclusion, I am proposing a BUY for J2 Global (JCOM). J2 Global is well positioned in their Cloud and Digital Media Segments. J2 Global has constantly managed to grow its revenue. J2 Global has the best software in the online fax business along with constant growth in other areas of the Cloud Segment. The Digital Media Segment is growing over 30% with no signs of slowing down. The long-term success of IGN will give J2 Global entry into the video game industry. J2 Global's margins are above the industry average. A target price of \$80.71 can easily be achieved. There are three possibilities to be considered with J2 Global's stock price.

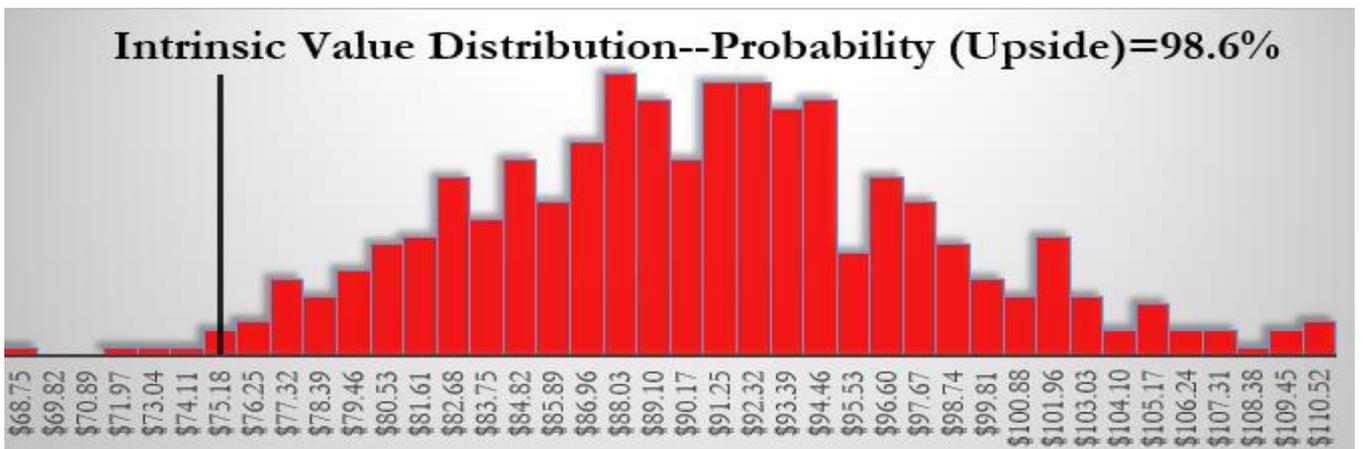
Bear Case: Considering everything, there is a possibility that J2 Global cannot expand revenues as much as the forecasts predict. This worst-case scenario would lead to a 1-year target price of \$72.00 a share, a -2.58% return.



Realistic Case: The most realistic results from revenue forecasts and gain in market share would lead to a 1-year target price of \$80.71 a share, a 9.03% return.



Bull Case: The case predicts that revenues continue to increase more than the forecasted revenues. The best-case scenario would lead to a 1-year target price of \$89.06, a 20.13% return.



j2 Global, Inc. (JCOM)

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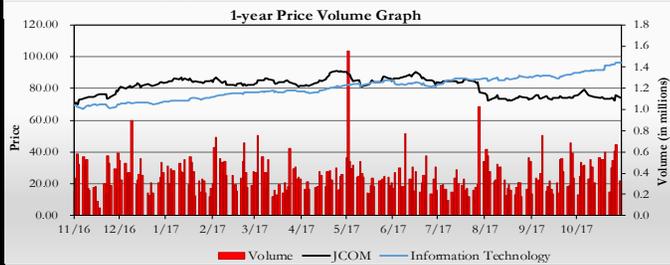
NEUTRAL

Analysis by Niall McGeever
11/8/2017

Current Price: \$75.52
Dividend Yield: 2.2%

Intrinsic Value: \$71.06
Target Price: \$80.71

Target 1 year Return: 9.03%
Probability of Price Increase: 82.2%

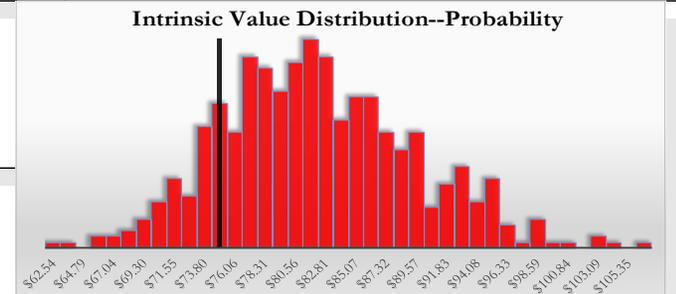


Description	
j2 Global, Inc., together with its subsidiaries, engages in the provision of Internet services worldwide.	
General Information	
Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	November 3, 2015
Next earnings date	February 9, 2018
Estimated Country Risk Premium	7.30%
Effective Tax rate	23%
Effective Operating Tax rate	23%

Market Data	
Market Capitalization	\$3,650.35
Daily volume (mil)	0.27
Shares outstanding (mil)	48.34
Diluted shares outstanding (mil)	48.52
% shares held by institutions	116%
% shares held by investments Managers	103%
% shares held by hedge funds	2%
% shares held by insiders	4.50%
Short interest	7.93%
Days to cover short interest	9.98
52 week high	\$91.48
52-week low	\$67.99
Volatility	28.21%

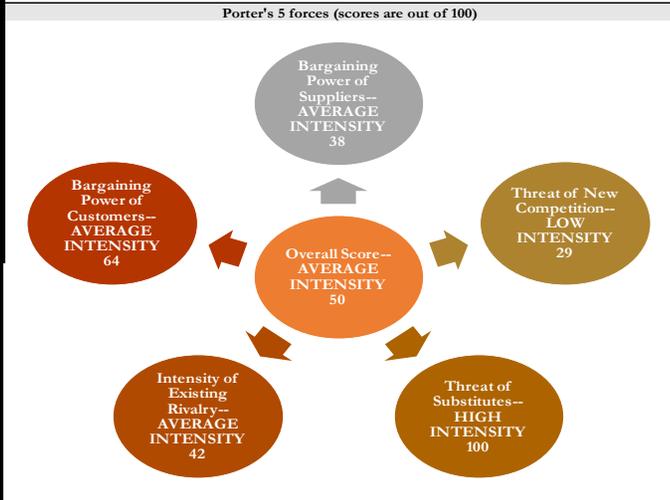
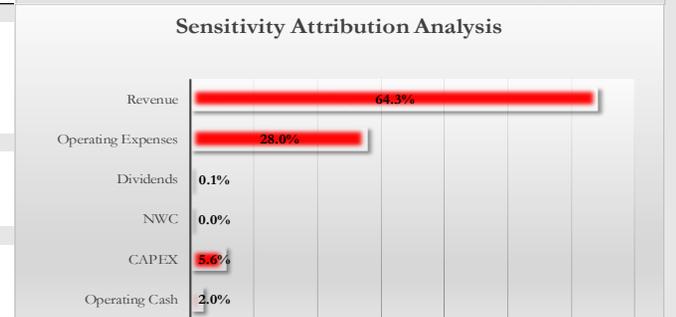
Past Earning Surprises		
Quarter ending	Revenue	EBITDA
9/30/2016	-0.81%	-6.24%
12/31/2016	3.81%	-4.67%
3/31/2017	-1.28%	-15.51%
6/30/2017	0.28%	-8.61%
9/30/2017	-0.25%	-4.38%
Mean	0.35%	-7.88%
Standard error	0.9%	2.1%

Peers	
LogMeIn, Inc.	
QuinStreet, Inc.	
Vonage Holdings Corp.	
CoStar Group, Inc.	
Nutanix, Inc.	
Bitauto Holdings Limited	
Autohome Inc.	
LivePerson, Inc.	



Management		Position	
Zucker, Nehemia	Chief Executive Officer	35.98% per annum over 5y	
Turicchi, Robert	President and Chief Financia	36.5% per annum over 5y	
Dunn, Steven	Chief Accounting Officer	26.72% per annum over 3y	
Rossen, Jeremy	VP, General Counsel & Secret	N/M	
Brunton, Patty	Corporate Vice President of	N/M	
van der Weijden, Jeroen	Vice President of Corporate	N/M	
Profitability		JCOM (LTM)	
Return on Capital (GAAP)	14.8%	23.26%	
Operating Margin	20%	27.73%	
Revenue/Capital (GAAP)	0.74	0.84	
ROE (GAAP)	14.1%	17.7%	
Net margin	13.8%	24.4%	
Revenue/Book Value (GAAP)	1.02	0.73	
Invested Funds		JCOM (LTM)	
Cash/Capital	15.0%	30.0%	
NWC/Capital	0.0%	-5.3%	
Operating Assets/Capital	32.8%	28.0%	
Goodwill/Capital	52.2%	47.3%	
Capital Structure		JCOM (LTM)	
Total Debt/Market Capitalization	0.49	0.23	
Cost of Existing Debt	7.7%	7.7%	
CGFS Rating (F-score, Z-score, and default Probability)	AA	BB	
WACC	13.8%	13.2%	

Total compensations growth		Total return to shareholders	
35.98% per annum over 5y		1.88% per annum over 5y	
36.5% per annum over 5y		1.88% per annum over 5y	
26.72% per annum over 3y		29.58% per annum over 3y	
N/M		0% per annum over 0y	
N/M		N/M	
N/M		N/M	
JCOM (5 years historical average)		Peers' Median (LTM)	
23.26%		-7.36%	
27.73%		7.80%	
0.84		-9.79	
17.7%		16.5%	
24.4%		8.4%	
0.73		1.97	
JCOM (5 years historical average)		Peers' Median (LTM)	
30.0%		47.7%	
-5.3%		-13.7%	
28.0%		-18.6%	
47.3%		84.6%	
JCOM (5 years historical average)		Peers' Median (LTM)	
0.23		0.33	
7.7%		5.8%	
BB		BBB	
13.2%		10.7%	



Period		Revenue Growth Forecast	
Base Year		27%	
9/30/2018		11%	
9/30/2019		9%	
9/30/2020		8%	
9/30/2021		8%	
9/30/2022		7%	
9/30/2023		7%	
9/30/2024		6%	
9/30/2025		5%	
9/30/2026		4%	
9/30/2027		3%	
Continuing Period		2%	
Period		Return on Capital Forecast	
Base Year		17.5%	
9/30/2018		11.0%	
9/30/2019		10.5%	
9/30/2020		10.0%	
9/30/2021		11.0%	
9/30/2022		20.7%	
9/30/2023		19.2%	
9/30/2024		17.8%	
9/30/2025		16.5%	
9/30/2026		15.4%	
9/30/2027		14.3%	
Continuing Period		13.1%	

Valuation		NOPAT Margin Forecast		Revenue to Capital Forecast	
Base Year		29.3%		0.60	
9/30/2018		6.7%		1.63	
9/30/2019		9.9%		1.06	
9/30/2020		11.8%		0.84	
9/30/2021		14.0%		0.78	
9/30/2022		34.6%		0.60	
9/30/2023		35.3%		0.54	
9/30/2024		35.7%		0.50	
9/30/2025		36.2%		0.46	
9/30/2026		36.8%		0.42	
9/30/2027		37.3%		0.38	
Continuing Period		11.8%		1.11	
Period		WACC Forecast		Price per share Forecast	
Base Year		13.8%		\$70.80	
9/30/2018		8.7%		\$80.41	
9/30/2019		8.7%		\$86.22	
9/30/2020		8.7%		\$92.06	
9/30/2021		8.7%		\$97.94	
9/30/2022		8.7%		\$103.80	
9/30/2023		8.7%		\$109.25	
9/30/2024		8.7%		\$114.19	
9/30/2025		8.7%		\$118.51	
9/30/2026		8.7%		\$122.09	
9/30/2027		8.7%		\$124.81	
Continuing Period		8.7%			