

November 6, 2018

**Company Name: Alarm.com
(ALRM)**

Samantha St.Germain

Sector:

**Industry: Commercial and Residential Building
Equipment and Systems**

Current Price:

Target Price: \$57.80

Company Description: Alarm.com offers smart home and security solutions for residential and commercial properties. Major revenues come from SaaS and hardware.

BUY

Current Price: \$49.65

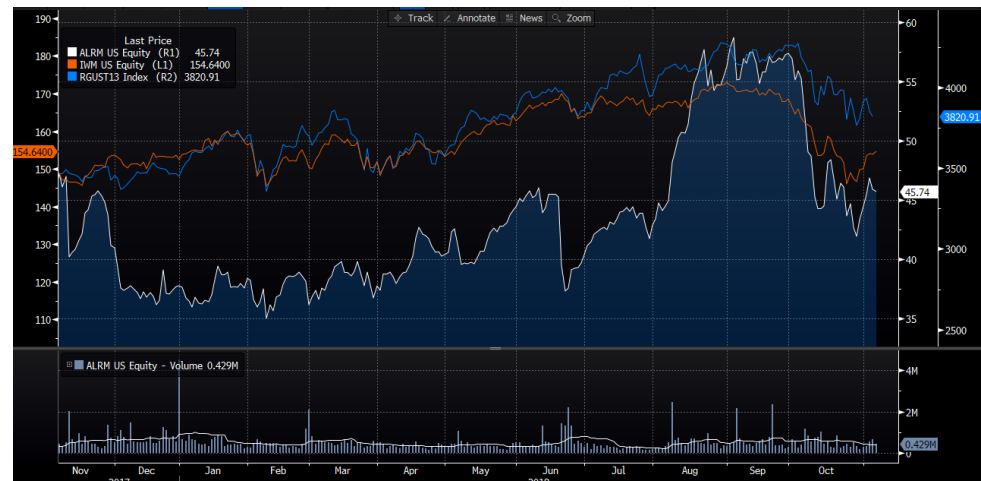
Target Price: \$57.8

Market Cap: 2,181.6M

ROIC: 10.71

ROIC/WACC: 3.74

SaaS Renewal: 94%



Thesis: The Smart Home market is a huge industry that firms have barely scratched the surface of. As a leader in the smart home security market, Alarm.com is positioned to highly benefit from the growth in the market as well as from factors more unique to the firm itself. Alarm.com is currently targeting new and growing markets to continue its rapid growth.

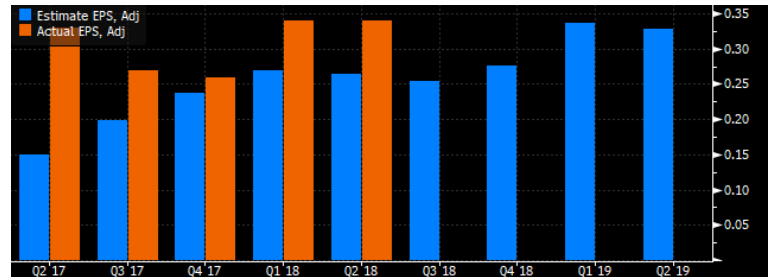
Catalysts: Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Growing Market for Home Security and Smart Home Technology
- Partnering With Insurance Companies to Encourage Adoption of Systems
- Partnering With Builders to add Systems to Housing Starts
- International Expansion
- Opportunities for Growth in the Smart Home Market Beyond Security

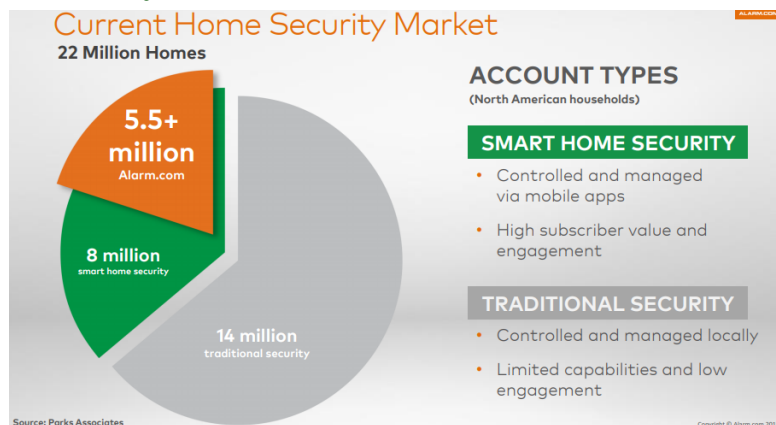
Earnings Performance:

Earnings for Q2FY18 grew 26.2% YOY. A large part of this came from a growth in SaaS and license revenue, increasing 20.4% from \$8.5 million in Q2FY17 to 10.2 million in Q2FY18. Cash flows for Q2FY18 were \$11.7 million, slightly down from \$11.8 in Q2FY17. EBITA margin for the 12 month period ending June 30, 2018, increased to 21% from 19.2% in 2017.

Alarm.com's main revenue segment grew from \$247.8 million in 2016 to \$320 million in 2017, an increase of 29%. Other revenue, which accounted for 6.94% of total revenues in 2017, grew from \$18.8 million to \$23.9 million. Alarm.com has shown strong revenue growth in the past, with strong prospects for the future which will be discussed further in the subsequent narrative.



Industry Growth:



Alarms.com provides integrated home security solutions for households and small businesses. The market for home security systems in the United States is currently 22 million homes, projected to rise to 26 million by 2021. Of the current 22 million homes with security systems, 8 million have smart home security systems. Alarm.com has 25% of the market share for the whole home security market at 5.5 million homes, and almost 69% of the smart home

security market share. In a highly fragmented market such as home security, Alarm.com has considerable market share.

As mentioned, homes with security systems are expected to increase approximately 18% by 2021. Smart home security will also see an increase, growing from 8 million homes to 16 million, taking their market share from the current 36% to a projected 61%. As the leader in smart home security, Alarm.com is poised to benefit from this expansion in the market.

With renewal rates at 94% for Q2FY18, the firm has historically been able to retain customers, proving the strength of the product. This also reflects that as of now, the firm is not losing customers, so focus can be put on acquiring new consumers.

Collaborating With Insurance:

Alarm.com recently announced that it will be partnering with insurance company Aviva to offer Aviva policy holders smart home security solutions tailored to their needs. Aviva is a European insurance company and the partnership will benefit policy holders in Ireland. Ireland currently has a smart home market

worth \$27.3 million. The Irish market is currently 5.1% penetrated, giving Alarm.com an early mover advantage in the market. International expansion will be discussed further in later sections.

Aviva Smart Home will protect homes from things such as fires, break-ins, and water damage. The service will be available through an app with will control security, heating and lighting for the property. Aviva Smart Home will have multiple features including door, motion, and glass break sensors, and heating and lighting controls. Chief Underwriting Officer for Aviva Ireland stated,

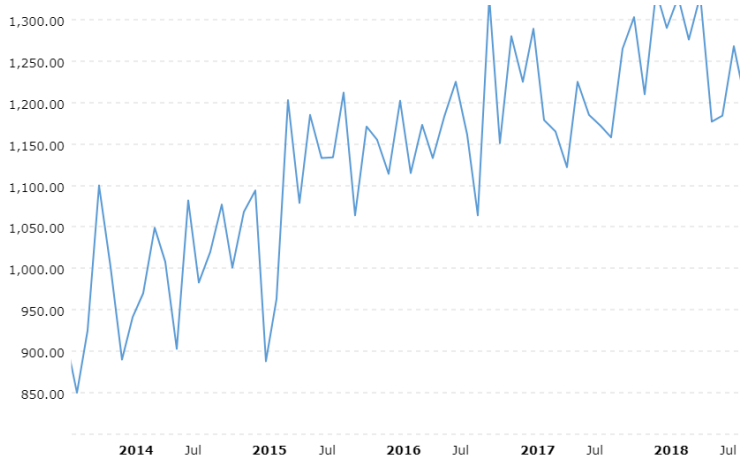
"As the global leader in smart home services, Alarm.com was the right partner for Aviva. We're confident that Alarm.com's platform provides both the reliability and ongoing innovation we need to extend our market leadership and brand into the smart home space."

Collaborating with insurance companies has the potential to yield benefits for both the insurance and security companies. The insurance companies get an extra layer of protection on the properties they insure, reducing the claims made. Alarm.com will benefit from the exposure to new customers. Alarm.com will also benefit from the insurance company offering incentives to policy holders to adopt smart home technology, particularly the one offered through the insurance company and Alarm.com.

This type of partnership is new for Alarm.com. The firm has benefited in the past from incentives offered by insurance companies to adopt home security measures, but never in such a direct partnership. If this is successful, Alarm.com may seek to expand their partnership with Aviva or find other insurance providers in other markets.

Housing Starts:

Housing Starts 2014-2018



Data from Macrotrends ; <https://www.macrotrends.net/1314/housing-starts-historical-chart>

ALRM announced a new home builder program. This program will facilitate partnerships with home builders, encouraging them to include Alarm.com Smart Home products into their new builds. The program allows service providers to provide new home builders with discounted hardware and a new automation-only service with will give home owners the opportunity to upgrade to a full security solution. Toll Brothers, one of the nation's leading luxury home builders, already uses Alarm.com for their smart home projects.

New homes tend to be early adopters of Smart Homes. By partnering with homebuilders to install Alarm.com products into these new homes, it will promote new

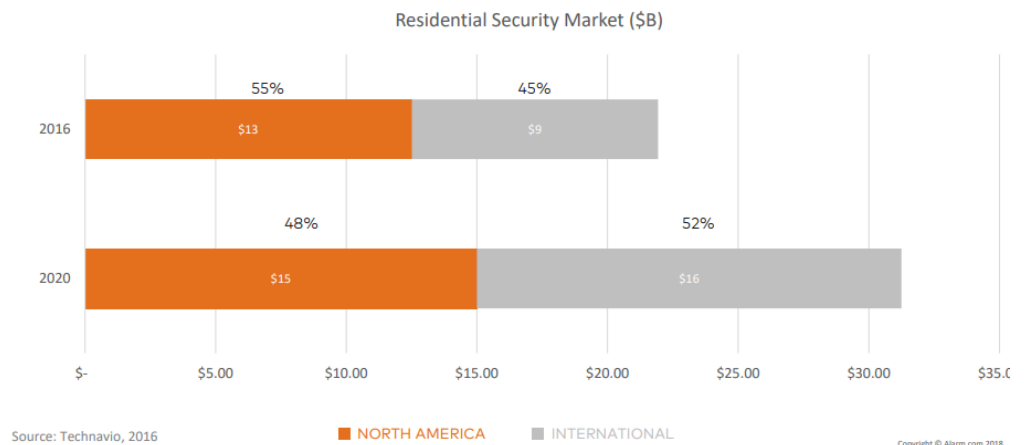
home buyers to use these products instead of switching to different products. It will also promote

homeowners who may not consider getting a security system or adopting smart home technology otherwise to keep the systems and upgrade to full security if they already have the necessary hardware installed.

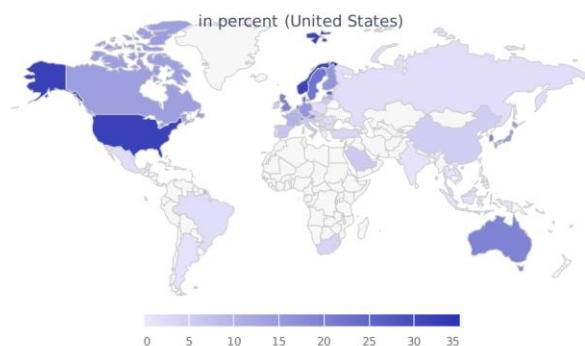
International Expansion:

The potential for international expansion is another avenue Alarm.com is pursuing. The global market for smart homes has only been 5.3% penetrated, giving Alarms.com an early advantage. Currently Alarms.com products are protecting approximately 1.4 billion homes worldwide. Alarms.com partners with firms such as ADT, Chubb United Technologies, Securitas, Pronet, and Spark both domestically and internationally. The international market for residential security is projected to grow from \$9 billion in 2016 to \$16 billion by 2020, a 43% increase.

Residential Security Projected to Grow Globally



Global Comparison - Household Penetration in the Smart Home market



Source: Statista, September 2018 © Natural Earth

statista

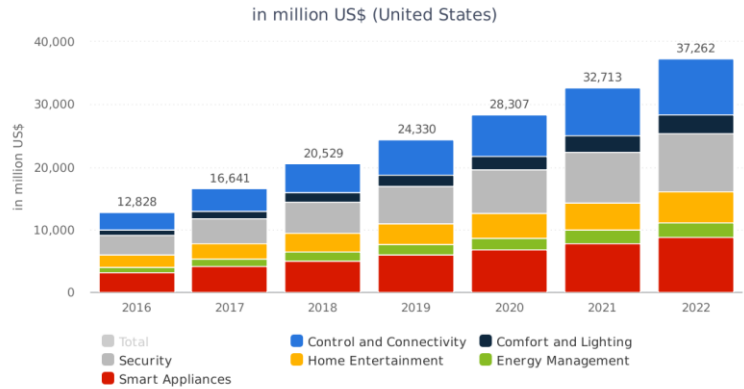
The smart home market is the most penetrated in the United States at 32%. While growth domestically is still a more than viable option, moving into areas with much lower market penetration, such as Mexico with only 1.9% penetration or France with 10.2% penetration, gives Alarm.com an early mover advantage, rapidly gaining market share before more competitors enter the market.

Other Opportunities in the Smart Home Industry:

In Q2FY18, Alarms.com saw an increase in revenue of 59% for products other than their security production. Alarms.com is uniquely positioned to capture the market for smart home products as 5.5 million homes own at least one Alarm.com product and Alarm.com's commitment to integration and smart home technology.

One currently offers a smart thermostat, which gained ENERGY STAR Certification in October, 2018. By offering a product that automatically monitors energy consumption and can adjust the heating and cooling of a house, consumers can see real economic benefits from what they save in energy bills, not just the benefit of having a secured home. More than 4 million smart thermostats were sold in 2015, reflecting a viable market for the product and others like it. It is projected that in 2021, there will be over 32 homes equipped with smart thermostats.

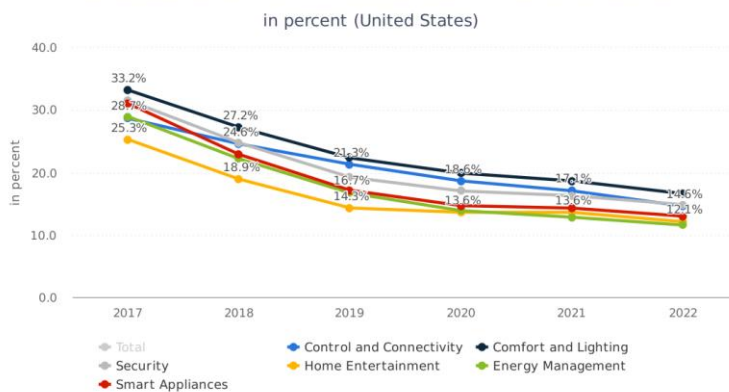
Revenue in the Smart Home market



Source: Statista, September 2018

statista

Revenue Growth in the Smart Home market



Source: Statista, September 2018

statista

proves that, while only a small portion of business for Alarms.com, that there is potential in the upcoming years for expansion and growth in these subsidiaries to play a larger role in revenues and sales.

Conclusion:

Alarm.com offers smart home security solutions for residential and commercial properties. The smart home industry is growing at a rapid rate both domestically and internationally. Alarm.com has an early mover advantage in international markets which have barely scraped the surface of the market. Alarm.com is also collaborating with entities outside of the smart home market including insurance companies and homebuilders to grow market share and revenue. With historically strong growth, all signs point to continued strong growth throughout the future.

Alarm.com Holdings, Inc. (ALRM)

CENTER FOR GLOBAL FINANCIAL STUDIES

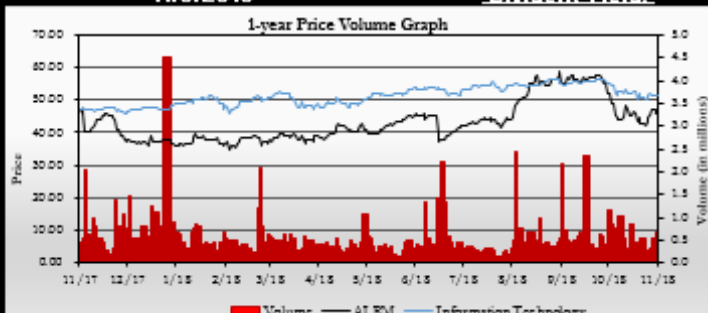
BULLISH

Analysis by Sam St. Germain
11/6/2018

Current Price: **\$45.74**
Dividend Yield: **0.0%**

Intrinsic Value: **\$53.24**
Target Price: **\$57.80**

Target 1 year Return: 26.36%
Probability of Price Increase: 100%



Description
Alarm.com Holdings, Inc. provides cloud-based software platform solutions for smart residential and commercial properties in the United States and internationally.

General Information
Sector: Information Technology
Industry: Software
Last Guidance: May 8, 2018
Next earnings date: November 7, 2018

Market Assumptions
Estimated Equity Risk Premium: 5.00%
Effective Tax rate: 13%

Market Data	
Market Capitalization	\$2,181.60
Daily volume (mil)	0.43
Shares outstanding (mil)	47.70
Diluted shares outstanding (mil)	49.40
% shares held by institutions	77%
% shares held by investments Managers	71%
% shares held by hedge funds	3%
% shares held by insiders	3.78%
Short interest	9.09%
Days to cover short interest	7.42
52 week high	\$60.20
52-week low	\$33.39
Volatility	0.00%

Past Earnings Surprises	
Quarter ending	Revenue
6/30/2017	6.55%
9/30/2017	9.25%
12/31/2017	6.59%
3/31/2018	3.14%
6/30/2018	10.25%
Mean	7.16%
Standard error	1.1%

Market and Credit Scores	
Recommendation (STARS) Value--0	
Recommendation (STARS) Description--0	
Quality Ranking Value--NR	
Quality Ranking Description--Not Ranked	
Short Score--2	
Market Signal Probability of Default % (Non-Ratings)--0.23%	
CreditModel Score (Non-Ratings)--bb-	

Industry and Segment Information	
LTM Revenues by Geographic Segment	LTM Revenues by Business Segments
--	Alarm.Com--34%
--	Other--7%
United States--100%	Intersegment--1%
--	--
--	--

Management	
Position	
Trundle, Stephen	CEO, President & Director
Ramos, Daniel	Senior VP of Corporate Development & Corp.
Bedell, Jeffrey	Chief Strategy & Innovation Officer
Kerzner, Daniel	Chief Product Officer
Martin, Jean-Paul	Co-Founder & CTO
Slavin, Alison	Co-Founder & Senior VP of Creation Lab

Total Compensation Growth	
EBITDA	
6/30/2017	-4.11%
9/30/2017	-2.77%
12/31/2017	-4.59%
3/31/2018	2.90%
6/30/2018	0.43%
Mean	-1.63%
Standard error	5.0%

Peers	
Control4 Corporation	--
Echelon Corporation	--
Apollo Global Management, LLC	--
--	--
--	--

Profitability	
ALRM (LTM)	
Return on Capital (GAAP)	32.3%
Operating Margin	26%
Revenue/Capital (GAAP)	1.26
ROE (GAAP)	26.8%
Net margin	14.5%
Revenue/Book Value (GAAP)	1.854058635

ALRM Historical	
Return on Capital (GAAP)	28.14%
Operating Margin	16.73%
Revenue/Capital (GAAP)	1.68
ROE (GAAP)	-10.1%
Net margin	13.5%
Revenue/Book Value (GAAP)	-0.75

Peers' Median (LTM)	
Return on Capital (GAAP)	20.13%
Operating Margin	22.83%
Revenue/Capital (GAAP)	0.88
ROE (GAAP)	17.5%
Net margin	11.6%
Revenue/Book Value (GAAP)	1.51

Invested Funds	
ALRM (LTM)	
Cash/Capital	35.6%
NWC/Capital	11.1%
Operating Assets/Capital	38.8%
Goodwill/Capital	14.5%

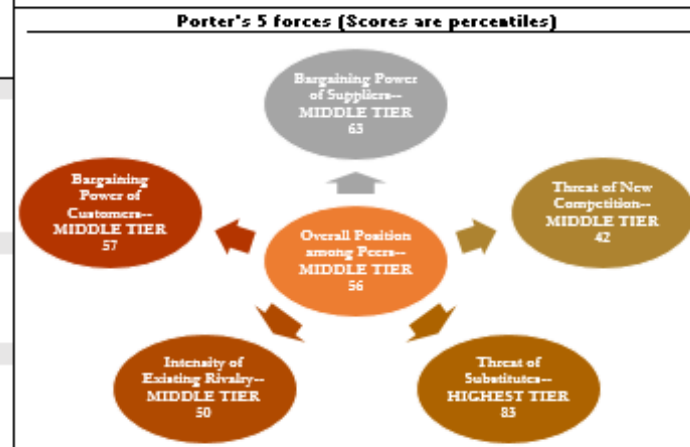
ALRM Historical	
Cash/Capital	33.4%
NWC/Capital	8.8%
Operating Assets/Capital	39.2%
Goodwill/Capital	14.4%

Peers' Median (LTM)	
Cash/Capital	25.3%
NWC/Capital	13.3%
Operating Assets/Capital	50.6%
Goodwill/Capital	1.8%

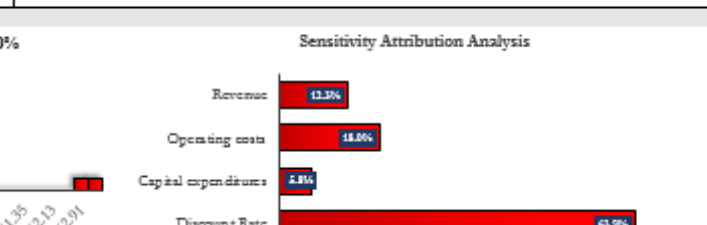
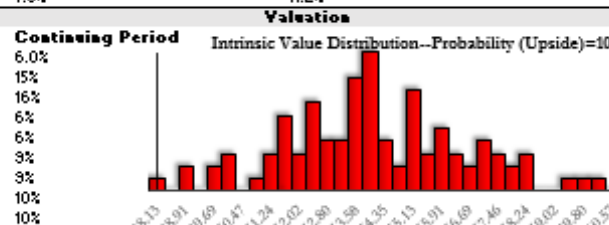
Capital Structure	
ALRM (LTM)	
Total Debt/Market Capitalization	0.21
Cost of Debt	3.3%
CGFS Rating (F-score, Z-score, and default Probability)	A
WACC	10.0%

ALRM Historical	
Total Debt/Market Capitalization	0.10
Cost of Debt	3.0%
CGFS Rating (F-score, Z-score, and default Probability)	
WACC	7.8%

Peers' Median (LTM)	
Total Debt/Market Capitalization	0.05
Cost of Debt	5.0%
CGFS Rating (F-score, Z-score, and default Probability)	
WACC	11.2%



Forecast Assumptions	
Explicit Period (15 years)	
Revenue Growth CAGR	14%
Average Operating Margin	20%
Average Net Margin	24%
Growth in Capital CAGR	16%
Growth in Claims CAGR	0%
Average Return on Capital	16%
Average Return on Equity	16%
Average Cost of Capital	10%
Average Cost of Equity	10%



Company Description:

Stamps.com is a software-based postage solution company that allows a wide range of customers to optimize their mailing and shipping operations.

BUY

Current Price: \$167.18
 Target Price: \$217.36
 Market Cap: 3B
 NI Margin: 36%
 ROIC: 25.73
 Kd: 5%
 Default Rating: bb
 WACC: 10.1
 SI Ratio: 4.47



Thesis: Market speculation has beaten down the high of 284 by 40 percent. The company has systematically increased its market reach by integrating high margin acquisitions and the newest, Metapack, entered them into international market. Their new focus on attracting shipping customers will create lead to higher margins after initial cost increases.

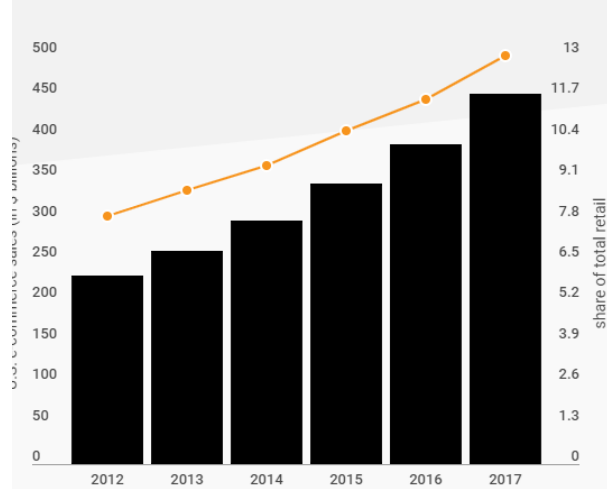
Catalysts:

- Short Term: Integration of MetaPack Ltd.
- Mid Term(1-2 years): Trump's Initiatives Fail

Earnings Performance:

Stamps.com has positioned itself to benefit significantly from the increase in shipping and packaging created by YoY E-Commerce growth of 16%. Their strategic acquisitions starting in 2010 have increased their customer reach and margins because of successful integration. The company is strategically focusing on its higher margin service business, which has shown up in revenue growth.

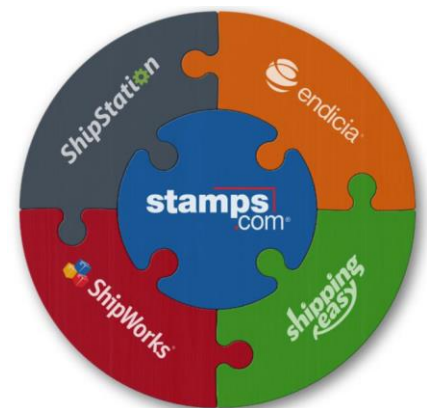
U.S. E-Commerce Sales & The Web's Share of Total Retail 2012-2017



1) Key Stats	2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom			
11) Adj Highlights	12) GAAP Highlights		13) Earnings		14) Enterprise Value		15) Multiples		16) Per Share		17) Stock Value
in Millions of USD	2010 Y	2011 Y	2012 Y	2013 Y	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est
12 Months Ending	12/31/2010	12/31/2011	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	09/30/2018	12/31/2018	12/31/2019
Market Capitalization	192.0	422.3	386.0	681.5	767.7	1,830.2	1,937.2	3,303.7	3,026.3		
- Cash & Equivalents	20.4	55.5	35.9	73.2	47.4	73.7	108.4	153.9	78.3		
+ Preferred & Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
+ Total Debt	0.0	0.0	0.0	0.0	0.0	161.6	147.4	69.0	63.1		
Enterprise Value	171.6	366.9	350.1	608.3	720.3	1,918.1	1,976.2	3,218.9	3,011.2		
Revenue, Adj	85.5	101.6	115.7	127.8	147.3	214.0	364.3	468.7	549.2	577.0	702.8
Growth %, YoY	4.2	18.8	13.9	10.5	15.2	45.3	70.3	28.7	24.2	23.1	21.8
Gross Profit, Adj	61.9	75.4	87.9	100.3	114.4	170.0	301.3	389.5	440.2	456.5	556.6
Margin %	72.3	74.2	76.0	78.5	77.7	79.5	82.7	83.1	80.2	79.1	79.2
EBITDA, Adj	7.6	18.1	26.2	36.7	39.4	65.7	140.5	183.1	217.2	256.3	305.6
Margin %	8.8	17.8	22.7	28.7	26.7	30.7	38.6	39.1	39.6	44.4	43.5
Net Income, Adj	9.3	26.3	39.0	44.2	34.1	56.3	109.9	145.1	197.5	209.5	220.0
Margin %	10.9	25.9	33.7	34.5	23.1	26.3	30.2	30.9	36.0	36.3	31.3
EPS, Adj	0.64	1.73	2.32	2.71	2.08	3.42	6.02	7.89	10.53	11.00	11.24
Growth %, YoY	56.5	170.9	34.4	16.6	-23.3	64.5	76.0	31.1	96.3	39.4	2.2
Cash from Operations	4.8	15.3	27.3	35.8	51.7	46.1	148.0	197.8			
Capital Expenditures	-1.5	-1.3	-26.5	-5.3	-2.9	-2.3	-7.8	-6.8		-3.3	-6.3
Free Cash Flow	3.3	14.0	0.8	30.5	48.9	43.8	140.3	191.0		201.7	253.1

Business Model:

Stamps.com customers are wide ranging. They engage with individual mailers, Small business and home office mailers, enterprise mailers, eCommerce shippers, and high volume shippers. Ninety percent of their revenue comes from subscription to their software + the fraction of USPS discounts not passed to customers. This service revenue comes from USPS mailing and shipping, multi-carrier shipping solutions, and mailing & shipping integrations. They also have customized postage, mailing and shipping supplies for an online store, customized postage and branded insurance. The business can focus on growing the average revenue per customer through sales and marketing because of the lack of Capex needed to grow the business. Capex/Rev has historically been negligible.



SOHO, Individuals and Enterprise Mailers:

Competing against traditional meters and retail postal locations. Their value prop for SOHO and enterprise mailers is that all the services of a post office are available from any PC and the creation of savings with postage that is more accurate and discounted.

E-Commerce and High Volume Shippers:

The value prop for E-Commerce and high volume shippers is the streamlining of their processes in order to save time. The software will unify shipping tasks, selling channels, and automate the processing of large volume orders. It also helps to optimize cost by selecting the best carrier for each shipment and allows access to discounts unavailable anywhere else.

Market Overreaction Opportunity:

Stamps.com's extremely healthy earnings and margins have not coincided with the pricing of the stock. The most recent earnings call beat on earnings and revenue, but the stock has continued to dive. The market is pricing STMP off speculation for growth and loss of revenue from policy change. The price is down more than 100 dollars from its high of 284 in June.

USPS Potential Overhaul:

On April 12, President Trump issued an executive order in April to set up a task force to study the USPS to make reforms. The USPS has been operating at a loss for 10 years and Trump is pushing for privatization and increasing prices. The task force report is coming out within the next few weeks. Business Groups are urging the task force to focus on fixing the postal service retiree benefits structure, which is the main driver of their financial woes.

Trump hopes raise the rates and remove access to discounts in order to dig the USPS out of their deficit. However, this potentially could drive eCommerce companies like Amazon to alternatives like UPS or FedEx. Even with the losses the USPS have incurred, Amazon/Ecommerce packages are a bright spot because of a law requiring profit on contract package delivery.

Stamps.com has benefitted greatly from access to USPS discounts that they profit keep and then pass on to customers. New negotiations between USPS and Stamps.com came out on August 7 and investors overreacted to the announcement. Negotiations between the two are common and usually take months. The USPS has benefited greatly from the partnership. Stamps.com plays a pivotal role for them with the largest private sales force committed to their growth. Their access to the discounts is well deserved. Their final agreement should reflect the value that Stamps.com creates. Skittish investors expect the partnership to lose major value for Stamps.com. This is highly unlikely.

UPU: Universal Postage Union

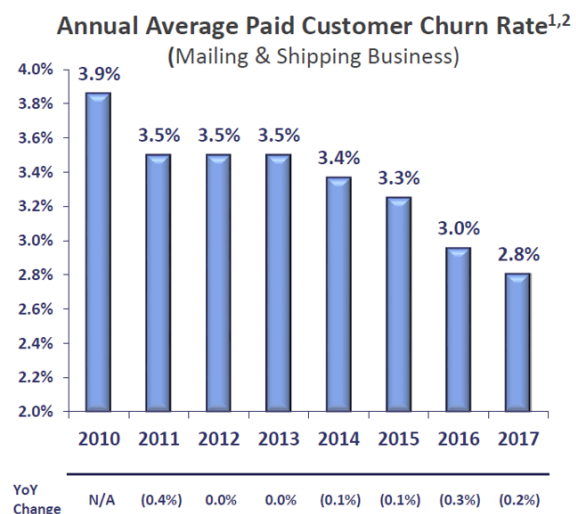
The UPU sets transfer pricing between the worlds postal authorities. The Trump administration has threatened to withdraw on the grounds of China's classification as a developing country, which creates discounts when shipping to the U.S.. The likelihood of withdraw is highly unlikely, but the threats may spark

a change. The UPU Director General has already supported a vote for reform in April of 2019. If Chinese rates are increased, it will actually benefit Stamps.com. U.S. based eCommerce companies will have a more level playing field and will potentially increase the demand for software services.

Shifting Focus to Shipping Business:

Stamps.com has targeted shippers for future development because of their lower churn rate (percentage rate that customers stop subscribing) and higher subscription fees compared to small business mailers. The increase in customers has stagnated to around 733 customers, but this is consistent with the strategy. Increases in revenue attributed to ARPU rather than growth in paid customers. ARPU was \$62.14 in the third quarter. That was up 29% versus the third quarter of 2017. Growing the shipping customer base is more expensive in terms of sales and marketing, but will continue to pay off in the long-run.

	Three months ended September 30,		
	2018	2017	% Change
Paid customers for the quarter	732	736	(0.5)%
Average monthly revenue per paid customer	\$ 62.14	\$ 48.23	28.8 %
Mailing and shipping revenue	\$ 136,538	\$ 106,452	28.3 %



	Q1-17	Q2-17	Q3-17	Q4-17	Total
Service Revenue	\$92,420	\$102,685	\$97,529	\$118,638	\$411,272
Store Revenue	\$5,714	\$4,763	\$4,824	\$5,414	\$20,715
Insurance Revenue	\$4,440	\$4,393	\$4,099	\$4,453	\$17,385
Mailing & Shipping Revenue	\$102,574	\$111,841	\$106,452	\$128,505	\$449,372
Customized Postage Revenue	\$2,442	\$4,276	\$8,588	\$3,938	\$19,244
Other Revenue	\$24	\$23	\$22	\$24	\$93
Total Revenue	\$105,040	\$116,140	\$115,062	\$132,467	\$468,709
Total Revenue (YoY % Change)	28%	38%	24%	25%	29%

	Q1-18	Q2-18	Q3-18 ⁹
Service Revenue	\$120,916	\$125,206	\$127,810
Store Revenue	\$5,679	\$4,892	\$4,705
Insurance Revenue	\$4,368	\$4,293	\$4,023
Mailing & Shipping Revenue	\$130,963	\$134,391	\$136,538
Customized Postage Revenue	\$2,580	\$5,218	\$6,957
Other Revenue	\$22	\$18	\$12
Total Revenue	\$133,565	\$139,627	\$143,507
Total Revenue (YoY % Change)	27%	20%	25%

	Q1-17	Q2-17	Q3-17	Q4-17	Total
Paid Customers (000s) ⁽³⁾	722	738	736	735	733
Paid Customers (YoY % Change)	11%	14%	13%	8%	12%
Revenue (\$000s) ⁽⁴⁾	\$102,574	\$111,841	\$106,452	\$128,505	\$449,372
Revenue (YoY % Change)	30%	37%	21%	26%	28%
Monthly ARPU ⁽⁵⁾	\$47.36	\$50.51	\$48.23	\$58.28	\$51.11
Monthly ARPU (YoY % Change)	17%	20%	7%	16%	15%
USPS Postage Printed (\$000s) ⁽⁶⁾	\$1,470,614	\$1,488,931	\$1,406,310	\$1,723,772	\$6,089,627
USPS Postage Printed (YoY % Change)	10%	14%	8%	9%	10%

	Q1-18	Q2-18	Q3-18 ⁹
Paid Customers (000s) ⁽³⁾	740	737	732
Paid Customers (YoY % Change)	3%	(0%)	(0%)
Revenue (\$000s) ⁽⁴⁾	\$130,963	\$134,391	\$136,538
Revenue (YoY % Change)	28%	20%	28%
Monthly ARPU ⁽⁵⁾	\$58.96	\$60.79	\$62.14
Monthly ARPU (YoY % Change)	24%	20%	29%
USPS Postage Printed (\$000s) ⁽⁶⁾	\$1,591,212	\$1,574,509	\$1,519,027
USPS Postage Printed (YoY % Change)	8%	6%	8%

MetaPack:



On August 15, 2018, Stamps.com continued the trend of buying complimentary businesses. Metapack's acquisition expands on their e-commerce/multicarrier business on an international level. It provides customers access to a carrier library that supports over 450 parcel carriers in over 200 countries. The company has the biggest delivery-management market share in Europe and they projected to produce 50 million in revenue this year, which is up 25% YoY, with an 87% gross margin. Metapack has operated at a slight loss for the last two years, which justifies the discount on acquisition of only 217.7 million. Stamps.com will leverage its scale and customer base to foster continued growth for Metapack.

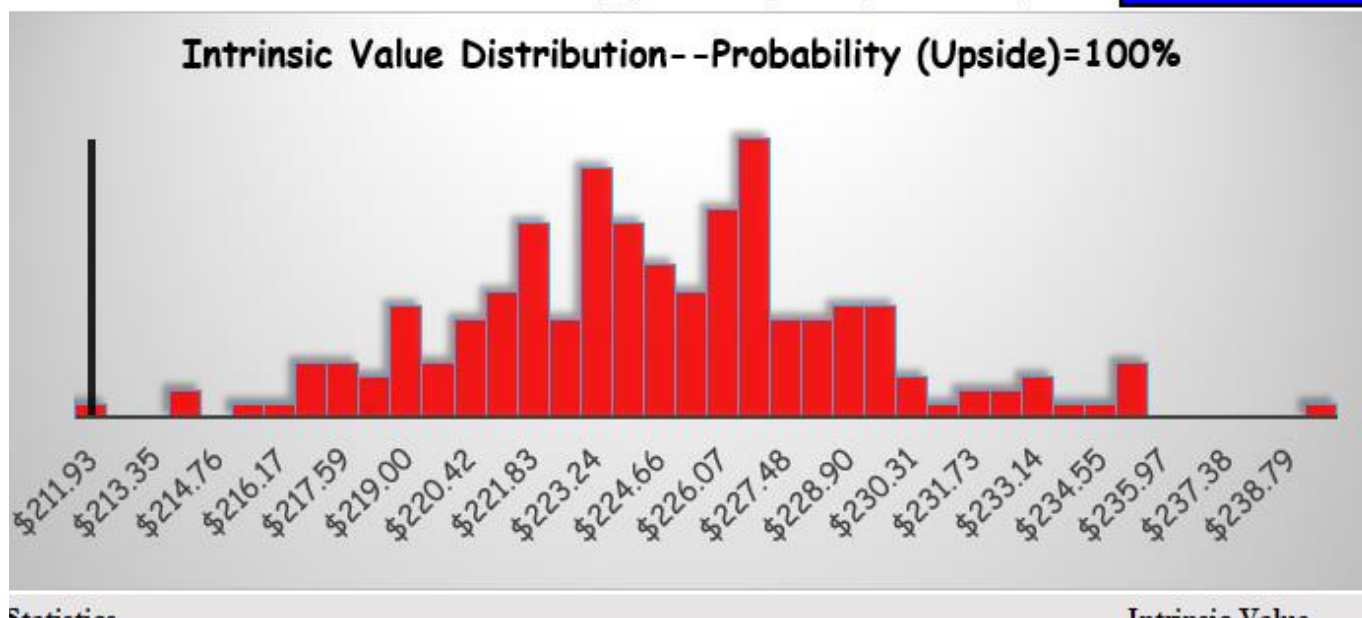
Conclusion:

Beaten down further than it should have been by speculation. Trump's taskforce and vendetta against the UPU will have no major effect on the Stamps.com, and investors' expectations will realign with Stamps.com true value. Management's shift in strategy to the high margin-shipping segment will continue to grow average sales per customer, which will translate to continued growth in revenue and even better margins over the midterm. Metapack will become a profitable business with management's guidance and will open up opportunity for growth into the international markets. Stamps.com is not poised for the massive growth it experienced over the last 8 years, but its price is not representative of the company's value.

Bull Case: USPS does not experience any changes and Metapack is successfully integrated

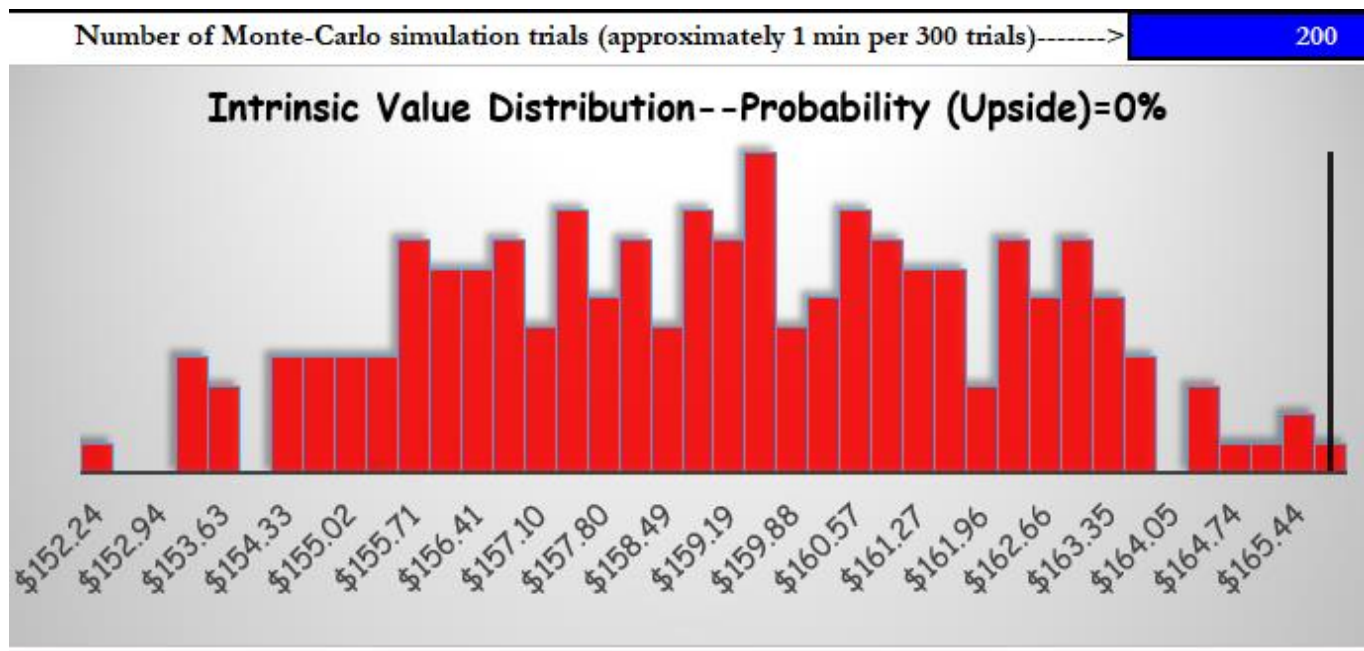
Target: \$244.24

Number of Monte-Carlo simulation trials (approximately 1 min per 300 trials)-----> 200



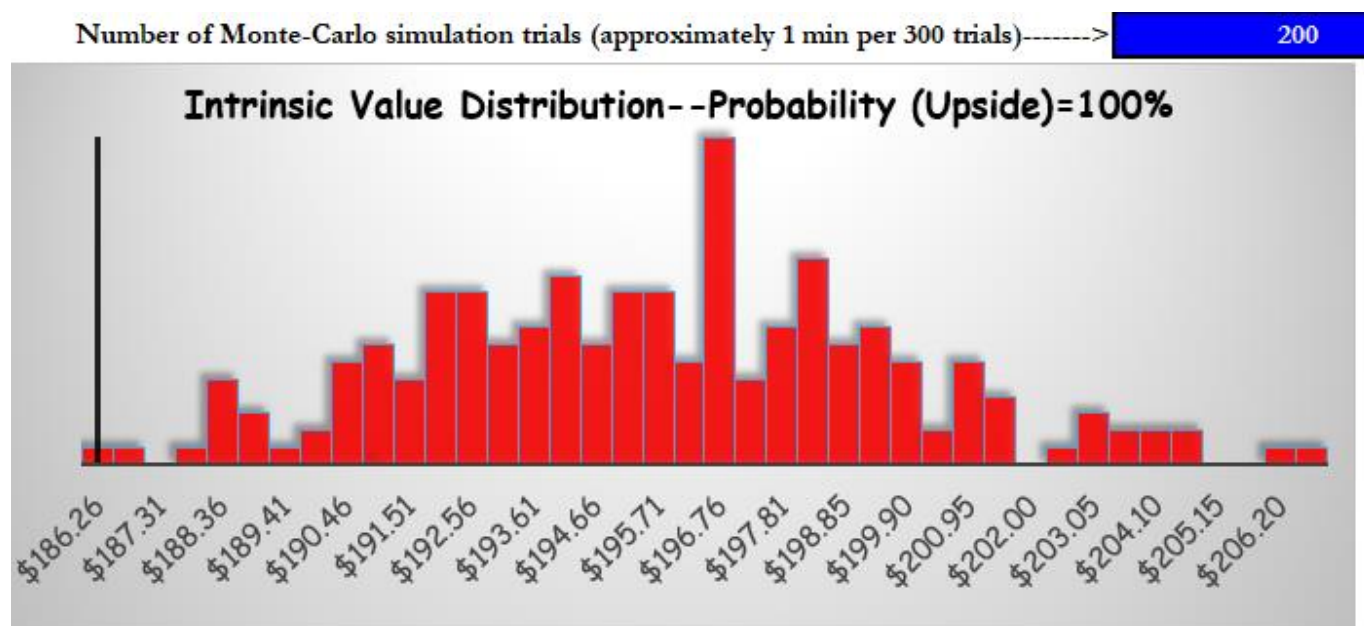
Bear Case: The USPS completely changes and Stamps.com loses its competitive advantage on discounts

Target: \$172.58



Realistic Case: Median Analyst estimates for growth with possible slight changes after negotiations with USPS.

Target Price: \$212.32



Stamps.com Inc. (STMP)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Al Capone
11/9/2018

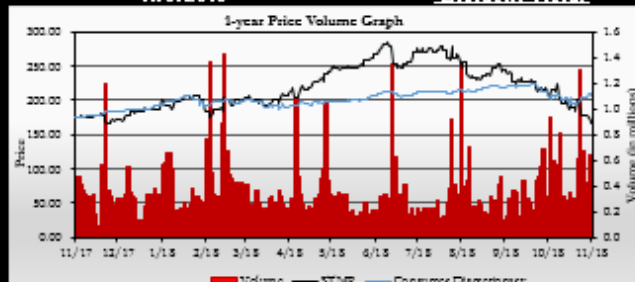
Current Price:
Dividend Yield:

\$167.18
0.0%

Intrinsic Value
Target Price

\$194.63
\$212.08

Target 1 year Return: 26.85%
Probability of Price Increase: 100%



Description	
Stamps.com Inc. provides Internet-based mailing and shipping solutions in the United States.	
General Information	
Sector	Consumer Discretionary
Industry	Internet and Direct Marketing Retail
Last Guidance	May 8, 2018
Next earnings date	February 22, 2019
Market Assumptions	
Estimated Equity Risk Premium	5.10%
Effective Tax rate	21%

Market Data	
Market Capitalization	\$3,035.11
Daily volume (mil)	0.40
Shares outstanding (mil)	18.15
Diluted shares outstanding (mil)	18.79
% shares held by institutions	92%
% shares held by investment managers	69%
% shares held by hedge funds	16%
% shares held by insiders	4.06%
Short interest	11.15%
Days to cover short interest	5.13
52 week high	\$285.75
52 week low	\$160.00
Volatility	44.36%

Quarter ending	Revenue	EBITDA
9/30/2017	3.67%	-19.49%
12/31/2017	9.43%	-7.06%
3/31/2018	7.40%	-0.05%
6/30/2018	4.79%	-14.06%
9/30/2018	6.20%	-100.00%
Mean	6.32%	-28.13%
Standard error	0.9%	2.3%

Market and Credit Scores	
Recommendation (STARS) Value	-0
Recommendation (STARS) Description	-0
Quality Ranking Value	-8
Quality Ranking Description	-Below Average
Short Score	-2
Market Signal Probability of Default % (Non-Rating)	-4.13%
Credit Model Score (Non-Rating)	-bb

Industry and Segment Information	
LTM Revenue by Geographic Segment	LTM Revenue by Business Segment
United States--100%	Internet Mailing and Shipping Services--100%
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Management	Position	Total Compensation Growth	Stock Price Growth During Tenure
McBride, Kenneth	Chairman & CEO	26.51% per annum over 6y	1.53% per annum over 6y
Huebner, Kyle	President	27.84% per annum over 6y	1.53% per annum over 6y
Carberry, Jeffrey	Chief Financial Officer		
Buerba, Sebastian	Chief Marketing Officer	-100% per annum over 3y	44.08% per annum over 3y
Clem, John	Chief Product & Strategy Officer and GM of Mc	-100% per annum over 4y	13.21% per annum over 4y
Biruar, Michael	Consultant	-100% per annum over 3y	44.08% per annum over 3y

Profitability	STMP (LTM)	STMP Historical	Peers' Median (LTM)
Return on Capital (GAAP)	37.4%	15.04%	9.20%
Operating Margin	44%	32.60%	7.51%
Revenue/Capital (GAAP)	0.86	0.46	1.23
ROE (GAAP)	35.9%	16.3%	27.6%
Net margin	35.2%	23.4%	5.8%
Revenue/Book Value (GAAP)	1.020214968	0.70	4.73

Peers	
Neopart S.A.	United Parcel Service, Inc.
Office Depot, Inc.	Staples, Inc.
Pitney Bowes Inc.	Postnet, Inc.
FedEx Corporation	--
Carta Wholesale Corporation	--

Invested Funds	STMP (LTM)	STMP Historical	Peers' Median (LTM)
Cost of Capital	21.0%	14.7%	11.9%
NWC/Capital	3.2%	2.4%	5.4%
Operating Assets/Capital	75.8%	59.4%	68.8%
Goodwill/Capital	0.0%	27.2%	14.1%

Capital Structure	STMP (LTM)	STMP Historical	Peers' Median (LTM)
Total Debt/Market Capitalization	0.12	0.08	0.57
Cost of Debt	2.6%	3.1%	3.6%
WACC	10.0%	8.0%	7.1%



Forecast Assumptions	Explicit Period (5 years)	Continuing Period
Revenue Growth CAGR	7%	2.5%
Average Operating Margin	40%	40%
Average Net Margin	35%	33%
Growth in Capital CAGR	14%	3%
Growth in Claims CAGR	0%	3%
Average Return on Capital	14%	7%
Average Return on Equity	15%	7%
Average Cost of Capital	10%	10%
Average Cost of Equity	10%	10%

