

November 6, 2018

## Stamps.com: (STMP)

Eric Munn

**Sector: Consumer Discretionary**
**Industry: Retail**
**Current Price: 167.18**
**Target Price: 212.19**

### 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.

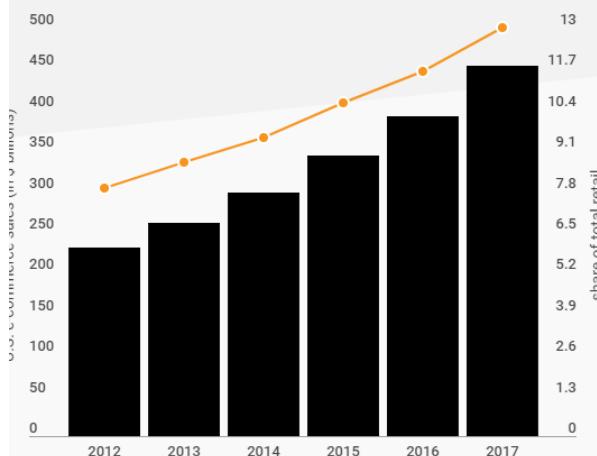
### Catalysts:

- 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.

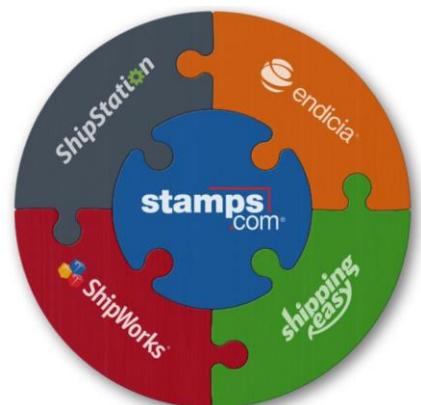
U.S. E-Commerce Sales & The Web's Share of Total Retail 2012-2017



1) Key Stats	2) I/S	3) B/S	4) C/F	5) Ratios	6) Segments	7) Addl	8) ESG	9) Custom	10) Stock Value
11) Adj Highlights	12) GAAP Highlights	13) Earnings	14) Enterprise Value	15) Multiples	16) Per Share	17) Stock Value			
in Millions of USD 2 Months Ending	2010 Y 12/31/2010	2011 Y 12/31/2011	2012 Y 12/31/2012	2013 Y 12/31/2013	2014 Y 12/31/2014	2015 Y 12/31/2015	2016 Y 12/31/2016	2017 Y 12/31/2017	Current/LTM 09/30/2018
<b>Market Capitalization</b>	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
<b>Enterprise Value</b>	171.6	366.9	350.1	608.3	720.3	1,918.1	1,976.2	3,218.9	3,011.2
<b>Revenue, Adj</b>	85.5	101.6	115.7	127.8	147.3	214.0	364.3	468.7	549.2
Growth %, YoY	4.2	18.8	13.9	10.5	15.2	45.3	70.3	28.7	24.2
<b>Gross Profit, Adj</b>	61.9	75.4	87.9	100.3	114.4	170.0	301.3	389.5	440.2
Margin %	72.3	74.2	76.0	78.5	77.7	79.5	82.7	83.1	80.2
<b>EBITDA, Adj</b>	7.6	18.1	26.2	36.7	39.4	65.7	140.5	183.1	217.2
Margin %	8.8	17.8	22.7	28.7	26.7	30.7	38.6	39.1	39.6
<b>Net Income, Adj</b>	9.3	26.3	39.0	44.2	34.1	56.3	109.9	145.1	197.5
Margin %	10.9	25.9	33.7	34.5	23.1	26.3	30.2	30.9	36.0
<b>EPS, Adj</b>	0.64	1.73	2.32	2.71	2.08	3.42	6.02	7.89	10.53
Growth %, YoY	56.5	170.9	34.4	16.6	-23.3	64.5	76.0	31.1	96.3
<b>Cash from Operations</b>	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
<b>Free Cash Flow</b>	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.

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## 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 be 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.

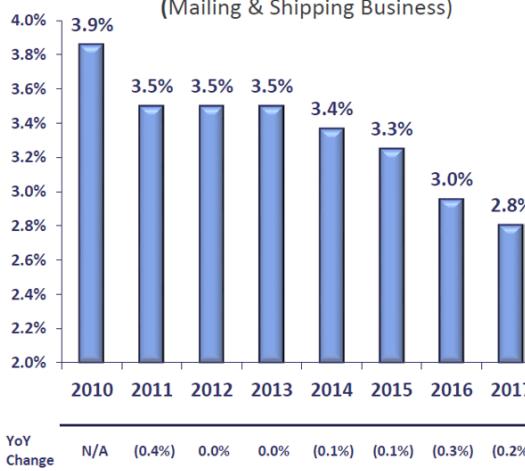
Three months ended September 30,

	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 %

Annual Average Monthly Revenue  
per Paid Customer (ARPU)<sup>1</sup>  
(Mailing & Shipping Business)



Annual Average Paid Customer Churn Rate<sup>1,2</sup>  
(Mailing & Shipping Business)



Revenue (\$000s) <sup>(1)</sup>	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 <sup>(2)</sup>
\$120,916	\$125,206	\$127,810
\$5,679	\$4,892	\$4,705
\$4,368	\$4,293	\$4,023
\$130,963	\$134,391	\$136,538
\$2,580	\$5,218	\$6,957
\$22	\$18	\$12
\$133,565	\$139,627	\$143,507
27%	20%	25%

Mailing & Shipping Metrics <sup>(2)</sup>	Q1-17	Q2-17	Q3-17	Q4-17	Total
Paid Customers (000s) <sup>(3)</sup>	722	738	736	735	733
Paid Customers (YoY % Change)	11%	14%	13%	8%	12%
Revenue (\$000s) <sup>(4)</sup>	\$102,574	\$111,841	\$106,452	\$128,505	\$449,372
Revenue (YoY % Change)	30%	37%	21%	26%	28%
Monthly ARPU <sup>(5)</sup>	\$47.36	\$50.51	\$48.23	\$58.28	\$51.11
Monthly ARPU (YoY % Change)	17%	20%	7%	16%	15%
USPS Postage Printed (\$000s) <sup>(6)</sup>	\$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 <sup>(2)</sup>
740	737	732
3%	(0%)	(0%)
\$130,963	\$134,391	\$136,538
28%	20%	28%
\$58.96	\$60.79	\$62.14
24%	20%	29%
\$1,591,212	\$1,574,509	\$1,519,027
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

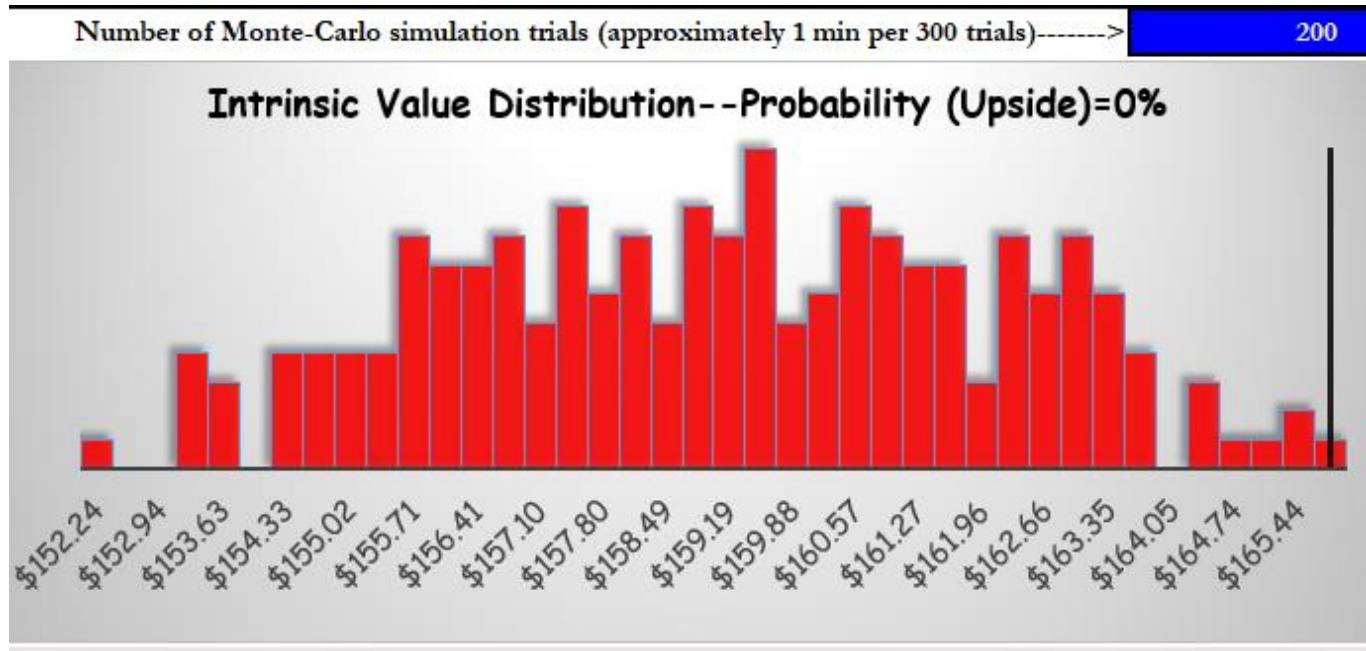
Number of Monte-Carlo simulation trials (approximately 1 min per 300 trials) ----->  200

### Intrinsic Value Distribution--Probability (Upside)=100%



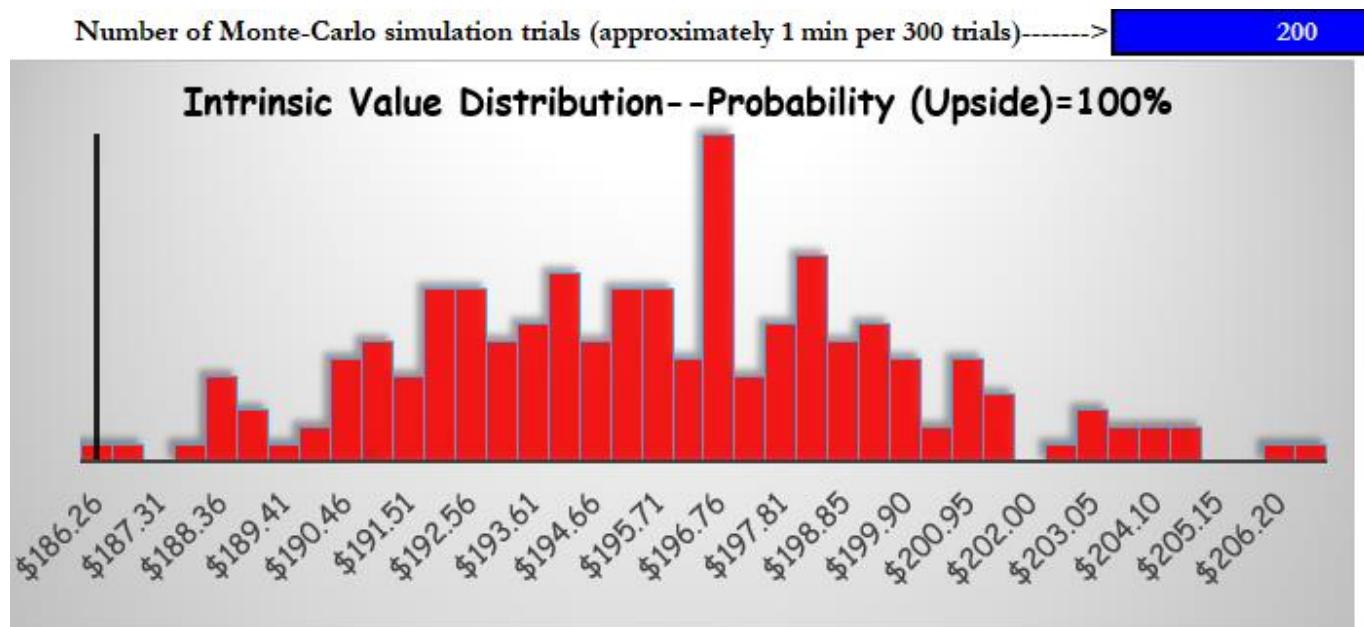
Bear Case: The USPS completely changes and Stamps.com loses its competitive advantage on discounts

Target: \$172.58

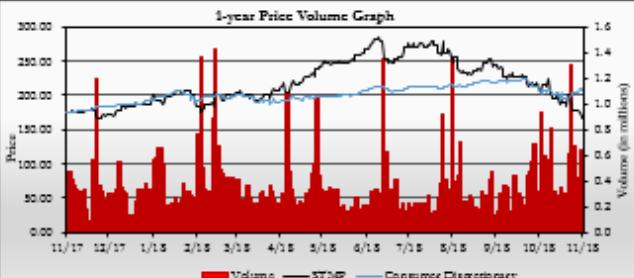
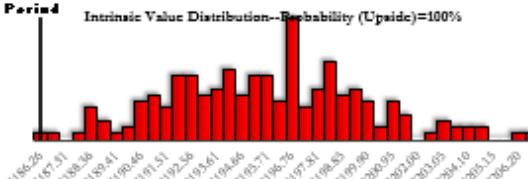


Realistic Case: Median Analyst estimates for growth with possible slight changes after negotiations with USPS.

Target Price: \$212.32



**Stamps.com Inc. (STMP)**
**CENTER FOR GLOBAL FINANCIAL STUDIES**
**BULLISH**

Analysis by Al Capone 11/9/2018		Current Price: <b>\$167.18</b>	Intrinsic Value: <b>\$194.63</b>	Target 1 year Return: 26.85%
		Dividend Yield: <b>0.0%</b>	Target Price: <b>\$212.08</b>	Probability of Price Increase: 100%
<b>1-year Price Volume Graph</b>				
				
<b>Part Earnings Surprises</b>				
<b>Quarter ending</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>Market and Credit Scores</b>	<b>LTM Revenue by Geographic Segments</b>
9/30/2017	3.67%	-19.49%	Recommendation (STARS) Value--0	United States--100%
12/31/2017	9.43%	-7.06%	Recommendation (STARS) Description--0	Internet Mailing and Shipping Services--100%
3/31/2018	7.40%	-0.05%	Quality Ranking Value--B	--
6/30/2018	4.78%	-14.06%	Quality Ranking Description--Below Average	--
9/30/2018	<b>6.20%</b>	<b>+100.00%</b>	Short Score--2	--
Mean	<b>6.32%</b>	<b>+2.13%</b>	Market Signal Probability of Default X (Non-Rating)--4.13%	--
Standard error	0.9%	2.3%	CreditModel Score (Non-Rating)--bb	
<b>Management</b>	<b>Position</b>	<b>Total Compensation Growth</b>	<b>Stock Price Growth During Tenure</b>	<b>Peers</b>
McBride, Kenneth	Chairman & CEO	26.51% per annum over 6y	1.53% per annum over 6y	Newport S.A.
Huebner, Kyle	President	27.84% per annum over 6y	1.53% per annum over 6y	United Parcel Service, Inc.
Carberry, Jeffrey	Chief Financial Officer			Office Depot, Inc.
Buerba, Sebastian	Chief Marketing Officer	-100% per annum over 3y	44.08% per annum over 3y	Pitney Bowes Inc.
Clem, John	Chief Product & Strategy Officer and GM of Mc	-100% per annum over 4y	12.21% per annum over 4y	FedEx Corporation
Birur, Michael	Consultant	-100% per annum over 3y	44.08% per annum over 3y	Cartes Wharehouse Corporation
<b>Profitability</b>	<b>STMP (LTM)</b>	<b>STMP Historical</b>	<b>Peer's Median (LTM)</b>	<b>Porter's 5 Forces (Scores are percentiles)</b>
Return on Capital (GAAP)	37.4%	15.04%	9.20%	Bargaining Power of Suppliers--MIDDLE TIER 35
Operating Margin	44%	32.60%	7.51%	
Revenue/Capital (GAAP)	0.86	0.46	1.23	Bargaining Power of Customers--MIDDLE TIER 44
ROE (GAAP)	35.9%	16.3%	27.6%	Overall Position among Peers--MIDDLE TIER 38
Net margin	35.2%	23.4%	5.8%	Threat of New Competition--LOWEST TIER 29
Revenue/Book Value (GAAP)	1.020214968	0.70	4.73	
<b>Invested Funds</b>	<b>STMP (LTM)</b>	<b>STMP Historical</b>	<b>Peer's Median (LTM)</b>	
Carb/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%	
<b>Capital Structure</b>	<b>STMP (LTM)</b>	<b>STMP Historical</b>	<b>Peer's Median (LTM)</b>	
Total Debt/Market Capitalization	0.12	0.08	0.57	
Cost of Debt	2.6%	3.1%	3.6%	
CGFS Rating (F-score, Z-score, and default Probability): AA				
WACC	10.0%	8.0%	7.1%	
<b>Forecast Assumptions</b>	<b>Explicit Period (5 years)</b>	<b>Continuing Period</b>	<b>Valuation</b>	<b>Sensitivity Attribution Analysis</b>
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%		