

**Company Description:**

Founded in 1996, Stamps.com provides easy, convenient and cost-effective Internet-based services for mailing or shipping letters or packages. Stamps.com’s shipping service is designed to allow individuals, home offices, small businesses or corporations to print US postage using any PC, any ordinary inkjet or laser printer, and an Internet connection. Based on current information available from the US Postal Service, Stamps.com has over 80% of the total PC Postage subscription customers.

**BUY**

Current Price:	\$215.82
Target Price:	\$235.25
Market Cap:	3.65B
Beta:	-0.04
ROE:	30.0%
EBITDA:	171.40
Operating Margin:	35.86%
52 week average:	\$89.26 – \$220.25
Average volume	431,227



**Thesis:** As the current leader in the internet-based mailing and shipping services industry, Stamps.com will continue to see strong revenue and earnings growth over time. With over 20 million potential subscribers in the market, Stamps.com will keep growing as the e-commerce business is growing at the rate of 15% annually.

**Catalysts:**

- Short Term(within the year): Continue to acquire potential customers and grow as past rates.
- Mid Term(1-2 years): Diversified shipping and inventory management solutions will allow more monthly subscribers.
- Long Term(3+): With over 450 Partnerships and Integrations in the e-commerce business will allow Stamps.com to be present at growing of at least the ecommerce rate of 15% annually

## Earnings Performance:

Stamps.com continues to show strong financial performance by outperforming their estimated earnings per share quarter after quarter. In the last Earnings Calls, Stamps.com presented a Non-GAAP adjusted EBITDA of \$58.1 million, up 52% compared to \$38.2 million in the second quarter of 2016. In addition, total revenue was \$116.1 million, up 38% compared to \$84.0 million in the second quarter of 2016. The company also reported a net income per fully diluted share was \$1.71, up 118% compared to \$0.79 in the second quarter of 2016.



In addition to strong revenue and earnings growth during the second quarter, Stamps.com reached their highest level of paid customers and average revenue per paid customer that will feed a steady growth in the shipping business areas. The investment acquisitions reflect in a successful increase in revenue and volume, and contributions to their revenue growth. Due to the acquisitions, the company was able to beat the expectations quarter after quarter for the last couple of years. An exciting second quarter performance, it is a good prediction that Stamps.com that healthy financials to support the eminent growth in the near future.

## Business Overview

Stamps.com was the first ever USPS-approved PC Postage vendor to offer a software as a mailing and shipping solution in 1999. Stamps.com is a leading provider of Internet-based mailing and shipping solutions in the United States. Under the Stamps.com and Endicia brands, customers use the United States Postal Service (“USPS”) only solutions to mail and ship a variety of mail pieces and packages through the USPS. Customers using Stamp.com solutions receive discounted postage rates compared to USPS.com and USPS retail locations on certain priority and first class delivery. Stamps.com differentiates themselves from regular shipping and mailing companies by offering online mailing and shipping solutions that can help small businesses and e-commerce businesses to save time and money with shipping and mailing services.

For instance, under the ShipStation®, Endicia®, ShipWorks® and ShippingEasy™ brands, customers use multi-carrier solutions to ship packages through multiple carriers such as the USPS, UPS, FedEx and others. Under PhotoStamps, users can modify the layout of their shipping labels the way they want to. Stamps.com customers include individuals, small businesses, home offices, medium-size businesses, large enterprises, e-commerce merchants and warehouse shippers.

The last companies that Stamps.com acquired have added some diversification to their total revenue, slowly giving the company different sources of revenue other the traditional mailing and shipping services that the company has offered from its early stages.

According to the U.S. Department of Commerce, total e-commerce sales for 2017 were estimated to grown in a rate of 16.2% over 2<sup>nd</sup> quarter of 2017. I believe the growth in e-commerce sales drives growth in the number of e-commerce packages shipped and that e-commerce merchants are potential customers of Stamps.com solutions. Stamps.com is a very leveraged company. The cash is appointed to be used in any possible acquisition to companies trying to grow in the internet-based mailing and shipping industry.

Stamps.com taps several channels to market its business. It relies on affiliated channels, direct mail, direct sales, offline marketing programs, partnerships, traditional media, and online advertising. Its target niche customer continues to be small businesses, individuals, home offices, mid-sized businesses, and large enterprises. It services to more than 600,000 customers.

## Section 2: Industry Overview



Stamps.com is the lead of their industry and currently not many competitors can compete with the volume of subscriptions and the revenue generated by the internet-based mailing and shipping alternative that Stamps.com has is specialized in. However, there are some alternatives to shipping solutions that the customers can shop from. For instance, individuals may physically go to the Retail Mailing and Shipping locations, but home base small businesses owners do not want to hustle to the physical locations everyday when the could use the stamps.com as a low-cost shipping solution alternative to send their products to their customers. USPS and UPS have their own online solutions that target larger companies shipment, but these alternatives are not cost-beneficial to small businesses since they do not offer a multiple location inventory and shipment inventory softwares and their services are priced higher than Stamps.com charges for their subscriptions. Other USPS-Approved PC Postage Vendors such as Pitney Bowes and Shippo.com offer similar internet-based mailing and shipping solution, but they have less than 20% of the total PC Postage subscription. Even though there is some sort of competitiveness to the market, STMP's customers choose their mailing and shipping solutions over those of the other PC Postage vendor because of superior software and user interface, larger breadth of features, extensive partner integrations and quality of customer service and support. For example, Stamps.com:

1. It is the only mailing and shipping service that is tightly integrated into the native capabilities of Microsoft Office for use with Office's mailing capabilities such as mail merge and envelope printing;
2. It is the only PC Postage provider with an integration partnership with Amazon.com for international shipping for their Marketplace users;
3. Support's more address books than any other PC Postage software; and
4. It is the only company that offers customers the additional choice of Themed and Photo NetStamps labels. Based on USPS data and estimates, Stamps.com have the highest number of PC Postage customers of any PC Postage provider.

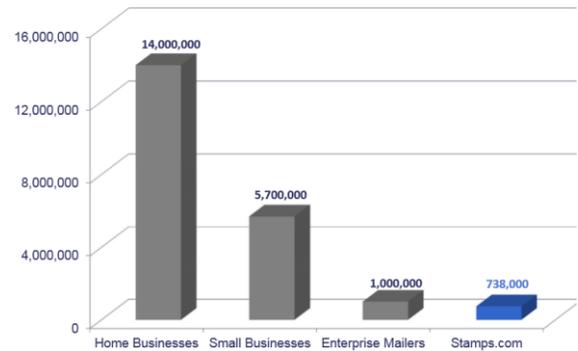
In the past, Stamps.com have acquired the competitors in order to increase the economies of sale, revenue and volume. In the last months, the costumer churn was primarily a result of a continued focus on acquiring shipping customers who tend to have a lower churn versus traditional small business office users. The average monthly revenue per paid customer or ARPU was \$50.51 in the second quarter and that was up 20% versus the second quarter of 2016. Growth in ARPU benefited from continued growth in shipping business because those customers pay higher subscription fees and they collect additional partnership revenue shares in that area.

Total Paid customer growth was the result of strong customer acquisition this quarter as well as lower churn. It is noticed that an acceleration in year-over-year growth in paid customers with Q4 of last year up 8%, Q1 of this year up 11% and now Q2 of this year up 14%. Average monthly churn rate during the second quarter was 2.8% that was down compared to the 3.2% in the second quarter of 2016.

## Opportunity of Growth Positive Trends

Stamps.com do have a bright future in front of them. There are many start up companies that are taking advantage of the eCommerce as a way to market and sell their products in 2017. With a discounted price for mailing and shipping services, and user friendly softwares that help customers to manage their customer shipment database, Stamp.com is a solution to many entrepreneurs that do not have time to go to the mail office all week long. There are over 20 million potential customers that Stamps.com could help in their mailing and shipment solutions, including home business, small businesses, and enterprise mailers. ECommerce has been growing at a 15% in the last year and Stamps.com will grow faster than that rate. Stamps.com will have enough demand to their services to continue growing at such rate.

Over 20 million Potential Customers



Source: International Data Corporation, Small Business Administration, Statistics of U.S. Business, Colography, USPS, and Company Estimates

We Represent Only 2% of Top 4 Carriers' Revenue



Source: Publicly available data for all mailing & shipping revenue in top 4 carriers  
 1 Combined LTM postage printed by Stamps.com, Endicia, ShipStation, ShipWorks and ShippingEasy

Some may argue that the United States postal Service could terminate their PC Postage contract with resellers, such as Stamps.com, affecting their business directly. I think it would be unreasonable to USPS to discontinue with their PC Postage resellers program since Stamps.com only account 8% of USPS' total revenue and they do not represent a threat to the United States PostalService as a direct competitor, but rather as marketing source for the government company. Stamps.com and USPS have a win-win relationship as Stamps.com generate volume and sales to the United States Postal Service while Stamps.com make their profit on the subscription rates while using the USPS distribution to their sales.

Customers choose Stamps.com private carrier technology solutions in order to utilize the package services of the USPS, to access multiple carriers from a single interface and because of the capabilities and performance of the products, the breadth of features that is offered, and the quality of their sales and support. With the over 20 million potential Customers and a renewed contract with USPS, Stamps.com will continue to grow at a very high pace and building a name for themselves in the market. When customers evaluate carriers' technology solutions, among other factors, they consider the cost and complexity of the technology product needed to access a particular carrier's services.

## Financials Overview

Financial Overview Stamps.com is a profitable and fast growing internet based e-commerce company with a fundamentally strong financial model. Stamps.com Its net loss for 2015 was fueled by a surge in general and administrative expenses related to its ShipStation, ShipWorks, and Endicia acquisitions, increases in headcount, and expenses related to infrastructure investments. Since then, Stamps.com's Mailing and Shipping business is a recurring revenue based model with service fees charged on a recurring monthly

subscription basis and with supplies store and package insurance purchases recurring with usage. The company's financial model is very attractive with high gross margins, significant fixed cost leverage, low working capital requirements and strong free cash flow generation. Cash accumulated over the years have served to acquisition purposes and shareholder payouts. Acquisition has been the key success for the volume and the diversification of their business, and the current cash ration implies another potential acquisition in the near future. Stamps.com operate in a very large addressable market with significant barriers to entry.

As specified in the earning calls, Stamps.com will use some of the free cash into operations, making the company more profitable over the time. As mentioned before, the Internet-base Shipping and Mailing industry is offering Stamps.com a great opportunity to continue growing revenue year after year. A decrease of 1% in the company's capital expenditure alongside with a conservative assumption of a 3% increase in the total revenue would directly affect the affect the current price, shooting it up to \$282.01. This represent a great opportunity to investors that are looking for a profit in a short and long term with the leading company. This 30.8% increase in the stock price will happen with the natural growth of the industry and the usage of the excess cash into operations.

In Millions of USD except Per Share	3	FY 2014	FY 2015	FY 2016	Current/LTM
12 Months Ending	3	12/31/2014	12/31/2015	12/31/2016	06/30/2017
 Revenue Growth Year over Year	1	15.22	45.28	70.27	38.24
 Gross Margin	9	77.66	79.47	82.71	82.97
 Gross Profit	3	114.4	170.0	301.3	348.2
 Operating Margin	9	16.17	-2.49	33.00	35.60
 Cash Ratio	7	1.40	0.56	1.13	1.27

## Ownership

The ownership for Stamps.com has remained relatively flat year over year. The biggest portion of the shares belong to investment advisors at 69.51% which increased from the previous year by 0.06%. The second largest is hedge fund managers at 19.29% of shares which increase by nearly one percent from the previous year. The individual ownership is only 4.87% which by one percent from the year before. This indicates that investors are optimistic in the growth of this company over time with such a high percentage belonging to investment advisors, followed by the hedge fund ownership.

Ownership Type	10/01/17	Curr ↓	Change
11) Investment Advisor	69.45	69.51	+0.06
12) Hedge Fund Manager	19.28	19.29	+0.01
13) Individual	4.86	4.87	+0.01
14) Pension Fund	2.24	2.25	+0.01
15) Bank	1.40	1.40	0.00
16) Government	1.22	1.23	+0.01
17) Insurance Company	0.76	0.68	-0.08
18) Brokerage	0.26	0.26	0.00
19) Holding Company	0.25	0.25	0.00
20) Foundation	0.10	0.10	0.00
21) Sovereign Wealth Fund	0.09	0.09	0.00

## **Conclusion:**

As the leader of the internet-base shipping and mailing solutions and the number of potential customers available, Stamps.com have a exciting future ahead of them. As USPS relationship continue strong, and they continue to renew contracts, Stamps.com will be growing at at least 15%, the same growth rate as the eCommerce business (suppliers). In order to increase profitability, the company will be reinvesting the cash on hand on wither acquisition or operations. With that being said, a decrease of 1% in the company's total capital expenditure alongside with a conservative assumption of a 3% increase (moderate assumption compared to the current rate) in the total revenue would directly affect the current price, up to \$282.01. The management of the company will be investing the extra cash on hand into operation, meaning that investors will have the opportunity to make a 30% profit on this stock if they buy now.

**Stamps.com Inc. (STMP)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

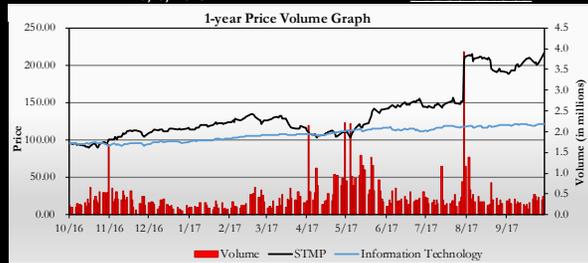
**NEUTRAL**

Analysis by MARCO  
10/6/2017

Current Price: **\$215.70**  
Divident Yield: **0.0%**

Intrinsic Value **\$240.96**  
Target Price **\$235.25**

Target 1 year Return: 9.06%  
Probability of Price Increase: 87.47%

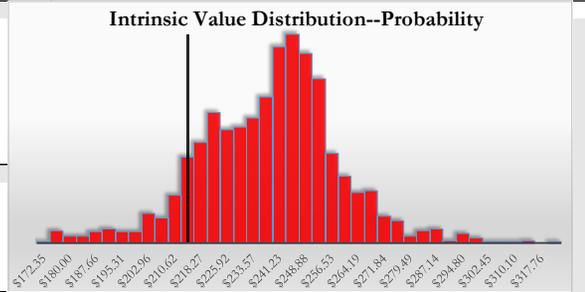


Description	Market Data
Stamps.com Inc. provides Internet-based mailing and shipping solutions in the United States.	Market Capitalization \$3,647.27
	Daily volume (mil) 0.19
	Shares outstanding (mil) 16.91
	Diluted shares outstanding (mil) 18.11
	% shares held by institutions 114%
	% shares held by investments Managers 78%
	% shares held by hedge funds 27%
	% shares held by insiders 5.77%
	Short interest 16.55%
	Days to cover short interest 6.43
	52 week high \$220.25
	52-week low \$89.26
	Volatility 46.59%

General Information	
Sector	Information Technology
Industry	Internet Software and Services
Last Guidance	November 3, 2015
Next earnings date	November 2, 2017
Estimated Country Risk Premium	5.69%
Effective Tax rate	24%
Effective Operating Tax rate	22%

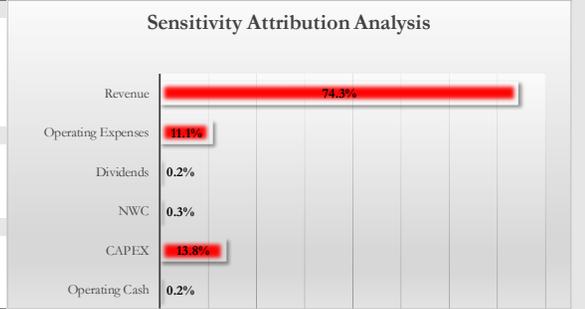
Past Earning Surprises		
Quarter ending	Revenue	EBITDA
6/30/2016	9.50%	1.16%
9/30/2016	12.80%	8.06%
12/31/2016	4.11%	0.57%
3/31/2017	8.79%	-10.84%
6/30/2017	13.12%	-6.47%
Mean	9.66%	-1.50%
Standard error	1.6%	3.3%

Peers	
MINDBODY, Inc.	
XO Group Inc.	
Box, Inc.	
Comerstone OnDemand, Inc.	
Bankrate, Inc.	
Twilio Inc.	
Office Depot, Inc.	
Shutterstock, Inc.	



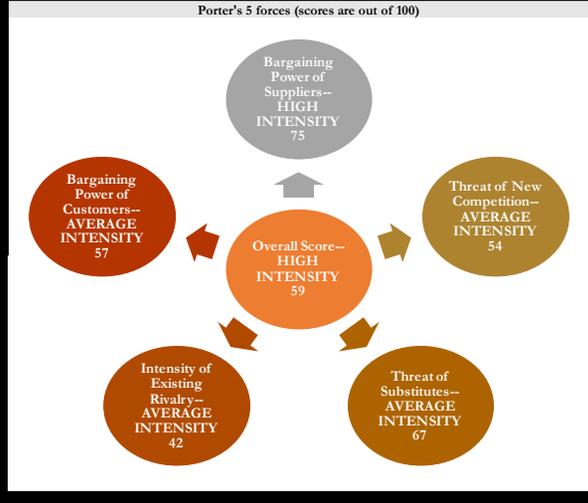
Management	Position	Total compensations growth	Total return to shareholders
McBride, Kenneth	Chairman & CEO	2.84% per annum over 5y	2.82% per annum over 5y
Huebner, Kyle	President	2.28% per annum over 5y	2.82% per annum over 5y
Weisberg, Seth	Chief Legal Officer and Comp	2.31% per annum over 5y	2.82% per annum over 5y
Rifai, Steve	Chief Sales Officer	N/M	0% per annum over 0y
Khechfe, Amine	Chief Strategy Officer	N/M	0% per annum over 0y
Carberry, Jeffrey	Chief Financial Officer	N/M	N/M

Profitability	STMP (LTM)	STMP (5 years historical average)	Peers' Median (LTM)
Return on Capital (GAAP)	29.8%	30.51%	75.86%
Operating Margin	30%	19.32%	2.73%
Revenue/Capital (GAAP)	0.98	1.58	27.83
ROE (GAAP)	30.0%	35.3%	193.4%
Net margin	26.7%	29.2%	4.5%
Revenue/Book Value (GAAP)	1.13	1.21	43.03



Invested Funds	STMP (LTM)	STMP (5 years historical average)	Peers' Median (LTM)
Cash/Capital	20.0%	27.5%	50.5%
NWC/Capital	4.5%	1.1%	-7.5%
Operating Assets/Capital	32.1%	49.3%	34.9%
Goodwill/Capital	43.4%	16.3%	22.1%

Capital Structure	STMP (LTM)	STMP (5 years historical average)	Peers' Median (LTM)
Total Debt/Market Capitalization	0.27	0.00	0.48
Cost of Existing Debt	4.0%	4.0%	4.8%
CGFS Rating (F-score, Z-score, and default Probability)	AA	BBB	BB
WACC	8.4%	9.7%	9.1%



Period	Revenue Growth Forecast	NOPAT Margin Forecast	Revenue to Capital Forecast
Base Year	46%	45.6%	0.62
6/30/2018	18%	42.4%	0.65
6/30/2019	16%	42.7%	0.55
6/30/2020	15%	42.9%	0.49
6/30/2021	13%	43.1%	0.45
6/30/2022	12%	43.2%	0.41
6/30/2023	10%	43.2%	0.38
6/30/2024	8%	43.1%	0.35
6/30/2025	7%	43.0%	0.32
6/30/2026	5%	44.2%	0.30
6/30/2027	4%	44.7%	0.27
Continuing Period	2%	44.3%	0.25

Period	Return on Capital Forecast	WACC Forecast	Price per share Forecast
Base Year	28.1%	8.4%	\$274.46
6/30/2018	27.5%	7.8%	\$302.77
6/30/2019	25.6%	7.9%	\$333.79
6/30/2020	21.2%	8.0%	\$366.96
6/30/2021	19.4%	8.1%	\$402.33
6/30/2022	17.8%	8.2%	\$439.85
6/30/2023	16.4%	8.4%	\$479.41
6/30/2024	15.1%	8.7%	\$521.42
6/30/2025	13.9%	9.2%	\$590.78
6/30/2026	13.2%	9.8%	\$640.31
6/30/2027	12.2%	10.0%	\$692.12
Continuing Period	11.1%	10.1%	