

November 30th, 2018

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Long: Stamps.com (STMP)





Recommendation

BUY

Current Price

(11/16/2018)

\$153.57

Target Price

\$201

Target Return

31%

STMP Summary Data						
Share Price (11/9/18)	153.57	Total Revenue (\$MM)	468.7			
52-Wk Range	152-285	Total Debt (\$MM)	63			
Shares O/S (MM)	18.3	Total Assets (\$MM)	679.1			
Forward P/E	15.0x	Revenue Growth	28.7%			
EV/EBITDA	12.2x	ROIC	42.8%			
Mkt Cap (\$MM)	2,788	ROE	35.4%			
Adj EBITDA (\$MM)	230	EBITDA Margin	39.5%			
Adj EPS	11.33	Days To Cover	4.5			

STMP - 52 Week Price Chart

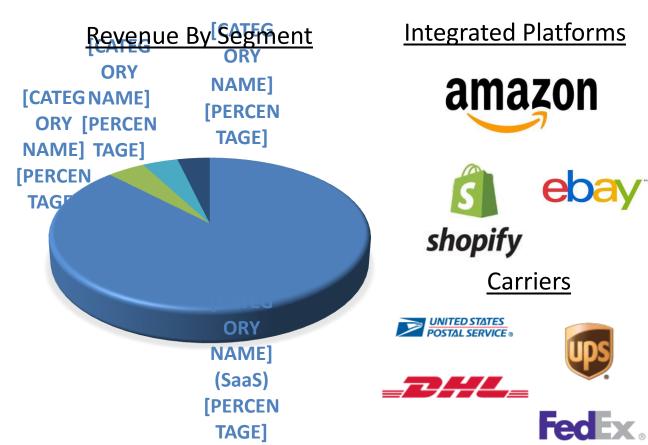




Stamps.com provides convenient and cost effective services for mailing and shipping domestically or internationally through easy to use online software. Their clients include individual customers, small businesses and large corporations.

Revenue Streams

- USPS Mailing and Shipping Service
- Multi-Carrier Shipping Services
- Mailing & Shipping Supplies Stores
- Integrated Insurance

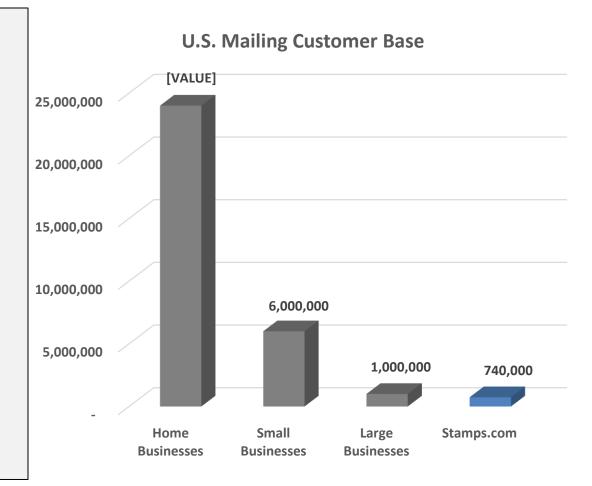




Competitive Landscape and Opportunities

Competitors include:

- Retail post offices
- Low Volume Shippers
- Other USPS Solutions
- eCommerce
 - Single Carrier (UPS,FedEX)
 - Other PC Solutions (Pitney Bowes SendPro)





Bullish STMP Thesis

eCommerce Business Growth

Regulatory Moat

Target Return

31%

Market Overreaction to Potential Events

Positive Track Record



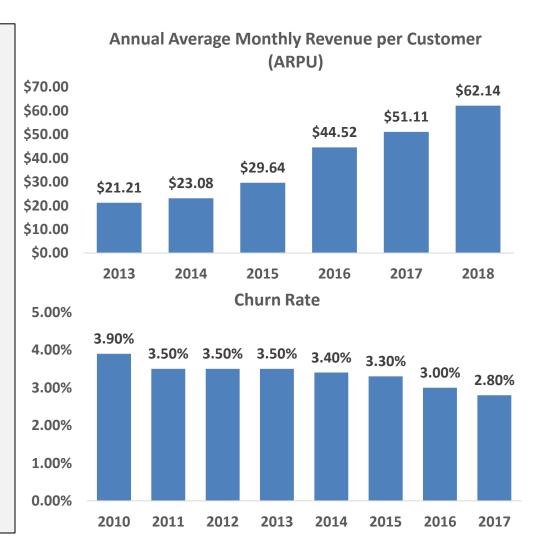
Thesis 1: eCommerce Business Drives Growth

eCommerce market projected to grow ~16% YoY:

 Shipping sales growth of ~30% outpaces eCommerce growth

Increasing marketing spend with focus on acquiring high-volume Shipping customers:

- Shipping will represent >75%
 of total revenues after
 MetaPack acquisition vs. mid 50% last year
- Shipping customers pay higher fees and have a higher lifetime value than small business clients





Thesis 1: eCommerce Business Drives Growth

STMP acquired MetaPack for \$230M cash

MetaPack is a SaaS solution with strong European presence catering to enterprise eCommerce and retail customers:

- Complements STMP's traditional focus on smaller business in the U.S.
- Gives STMP scale to support global eCommerce customers
- 10x increase in STMP's parcel carriers
- Removes negotiation and integration pains



















Thesis 2: Regulatory Moat

- Regulatory barrier to entry
- Account for > 30% of USPS Priority Mail
- Software enables customers to scale efficiently through automation features:
 - Direct cart integration
 - Increase fulfillment processing speeds
 - Rate Comparison Engine
 - Professional Product

	All Stamps.com Solutions	Other PC Postage Solutions	USPS eVS, ePostage
Batch Label Printing	Yes	No	No
Major High Volume Features	Over 75	0	0
Parcel Carriers Supported	Over 40	3	1
USPS Mail Classes Supported	18	9	8
USPS Mailpiece Types Supported	9	5	5
Number of Unique Integrations	Over 500	0	0
Upfront Cost	\$0	\$0	Large

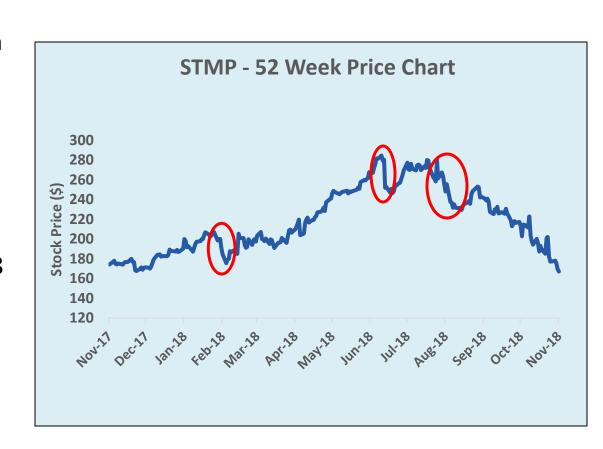


Thesis 3a: Market Overreaction

STMP trades at a ~46% discount from its 52-week high of \$285.75

The market has severely overreacted to recent news:

- Amazon announced plans for a delivery service on 2/9/18 and shares fell 6.3% to \$168.15
- Shares fell >10% on 6/21/18 to \$251.85 when gov't announced proposal to restructure USPS
- USPS renegotiation announcement on 8/8/18 caused shares to fall nearly 14% to \$220





Thesis 3b: Track Record

Acquisition of MetaPack Under-Appreciated by the Market:

- MetaPack generated annual revenue of \$42.1M prior to acquisition
- MetaPack's historical growth rate (low teens) will accelerate as it leverages STMP's large U.S. sales team and synergies are realized

Management and Conservative Estimates:

- Management under promises and over delivers
- Management has not yet fully quantified the potential MetaPack impact on earnings

	Revenue	
Period	Surprise	EPS Surprise
Q3 2018	9.83%	15.97%
Q2 2018	3.81%	15.64%
Q1 2018	9.03%	33.83%
Q4 2017	11.55%	73.85%
Q3 2017	3.89%	38.64%
Q2 2017	17.05%	26.06%
Q1 2017	11.27%	33.28%
Q4 2016	9.17%	18.44%
Average	9.45%	31.96%





DCF Analysis

Cost of debt:					
Cost of debt	5.00%				
Marginal tax rate	25.00%				
After-tax cost of					
debt	3.75%				
Debt Weight	2.03%				
Cost of equi	ty:				
Risk free rate	3.19%				
Beta	0.94				
MRP	6.80%				
Cost of equity	9.61%				
Equity Weight	97.97%				
WACC	9.49%				
Perp Growth	2.00%				

DCF Valuation	
Discount Rate (WACC)	9.49%
TV Growth Rate	2.0%
PV of Terminal Value	\$2,723
Sum of PV of CF	\$949
Enterprise Value	\$3,665
Equity Value	\$3,680
Shares O/S (MM)	18.3
Est. Share Price	\$201

	2018E	2019E	2020E	2021E	2022E
Revenue	581	695	799	902	995
YOY Growth	24%	19.5%	15%	13%	10%
EBITDA	268	313	352	398	439
EBITDA					
Margin	46.1%	45.1%	44.1%	44.1%	44.1%
Unlevered FCF	193	223	251	283	313





Scenario Analysis

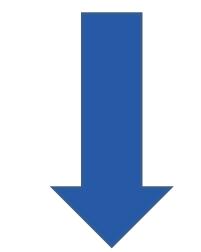


Bear Assumptions:

- Partnership with USPS deteriorates
- Increased competitions from new entrants
- Profitability per customer/client decreases
- 8.3% Revenue CAGR
 2017-2022
- 600bps EBITDA margin

Bear Price \$133

DCF Valuation					
Case	Est. Price				
Bear	\$133				
Base	\$201				
Bull	\$240				



Target Price \$201



Bull Assumptions:

- Domestic market penetration acceleration
- Reduced margin contraction from increased synergies
- Further reduced churn rates and increased ARPU
- 20% Revenue CAGR 2017-2022
- 300bps EBITDA margin

Bull Price \$240



Risks	Potential Harm	Mitigation
USPS Initiative to renegotiate the		Hostilities in Congress will prevent any materially new or adverse agreement to be completed.
exclusivity deal with Stamps.com	High	Stamps.com generates a large volume of business for USPS and could pass costs to customer; constitutes 80% of PC postage market, more than 1/3 of all USPS priority mail packages and more than 1/2 of all first-class mail.
"Amazon Factor" and Potential Market Entry	Medium	Amazon's new shipping business is in competition with parcel-heavy delivery services (UPS, FedEx) and not the common Stamps.com user and would have a minimal effect for revenues.
		Amazon's growth expectations and requirements would not be fulfilled by entering into Stamps.com market.
U.S. leaving/renegotiating the UPU and increasing		Extreme majority of Stamps.com business is not affected by international shipping and vast amount of capable growth in U.S. still possible.
international shipping charges	Low	Europe, where MetaPack is looking to grow business, is not the target region for the new charges and most European goods' demand not heavily affected by shipping charges and other nations still UPU members.



Appendix



Our Estimates VS Consensus

\$ MM	2018 Revenue	2018 YOY Growth	2019 Revenue	2019 YOY Growth
Consensus Est.	576.69	23.0%	702.87	21.9%
Our Est.	581.20	24.0%	709.06	22.0%
Difference	4.51	100bps	6.19	10bps



Relative Valuation

Compara	ables (\$MM in USD)	Office Depot	Pitney Bowes Inc.	FedEx Corporation	UPS	Paycom Software Inc	Paylocity Holding Co	Comprable Average	Stamps.com
	Ticker	ODP	PBI	FDX	UPS	PAYC	PTCY		STMP
	Market Cap	1,778	1,505	59,133	94,071	7,442	3,359	27,881	3,056
	Revenue	11,025	3,529	68,595	72,214	560	415	26,056	581
Size/	YOY Growth	7.7%	-0.6%	10.0%	9.6%	29.3%	24.4%	13.4%	24.0%
Growth	EBITDA	549	627	8927	9753	234	99	3,365	229
	P/E - FY1	9.7	6.9	13.1	15.1	48.7	44.7	23	15.2
	EV/EBITDA - FY1	4.7	6.3	8.3	11.5	31.6	33.1	16	11.7
Margins/	Gross Margins	23.4%	45.6%	26.9%	21.4%	86.3%	62.1%	44.3%	83.1%
Сар	EBITDA Margins	5.0%	17.8%	13.0%	13.5%	41.8%	23.8%	19.1%	39.5%
Intensity	Capex/Sales	1.8%	6.0%	8.7%	7.9%	11.5%	8.6%	7.4%	1.5%
	Net Debt/EBITDA	1.5	3.9	1.6	1.9	-0.2	-0.9	1.3	-0.9
Risk/	Short Interest	4.7%	7.8%	1.6%	1.1%	7.4%	2.2%	4.1%	10.9%
Return	ROA	4.6%	4.7%	6.5%	11.0%	4.0%	0.8%	5.3%	15.9%
	ROC	7.9%	8.0%	9.8%	22.5%	30.9%	5.6%	14.1%	18.3%

STMP Undervalued VS Competition



Family of Brands

	stamps .com	endicia e	ShipStati \$ n°	🚜 ShipWorks	shipping
Year Launched / Acquired	1999	2000 / 2015	2010 / 2014	2001 / 2014	2012 /2016
Parcel Carriers ¹	USPS	USPS	Over 30 parcel carriers	Over 15 parcel carriers	Over 5 parcel carriers
Software Solution	Software and Web	Software and Web	Web Only	Software Only	Web Only
Third Party Software Integrations	Over 75	Over 240	Over 175	Over 100	Over 50
Piece Types	Mail, Packages	Mail, Packages	Packages Only	Packages Only	Packages
Customer Targets	SOHO Mailers Enterprise E-Commerce Shippers High Volume Shippers	E-Commerce Shippers High Volume Shippers	E-Commerce Shippers	High Volume Shippers	E-Commerce Shippers



Stamps.com VS Postage Meter

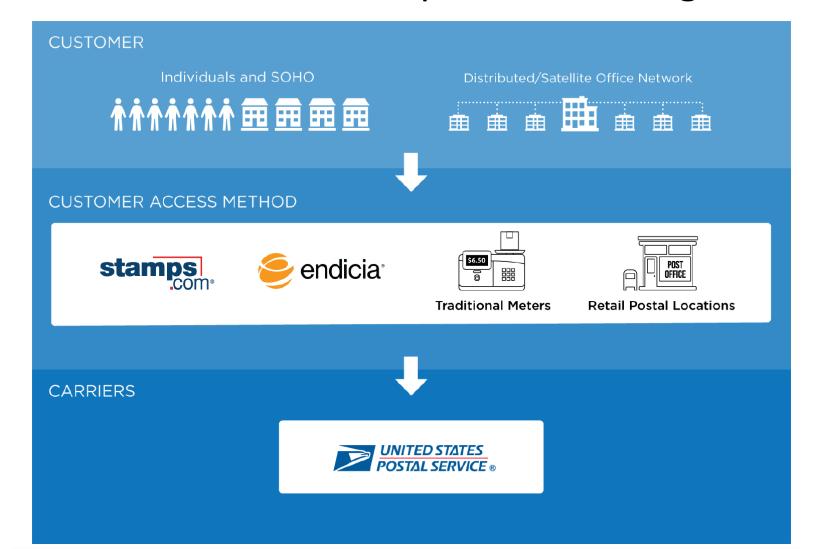
Category	Entry Level Meter	Stamps.com
Max. Print Speed	18 letters/minute	At speed of printer
Monthly Fee (rental plus 5 lbs. scale)	\$19.99/month ¹ (1-Year Auto Renew Lease)	\$15.99/month (No Lease)
Proprietary Ink & Labels	\$16 to \$23 ²	None
Estimated Monthly Total Cost of Ownership	~\$36 to \$53	\$16

¹ Entry level small business meter with an integrated scale

² Assumes monthly prints of 60 letters and 10 large envelopes per month; proprietary ink fees of \$.08 - \$.18 per print; proprietary label fees of \$.25 per label



Individual/SOHO/Enterprise Mailer Segment





eCommerce Segment





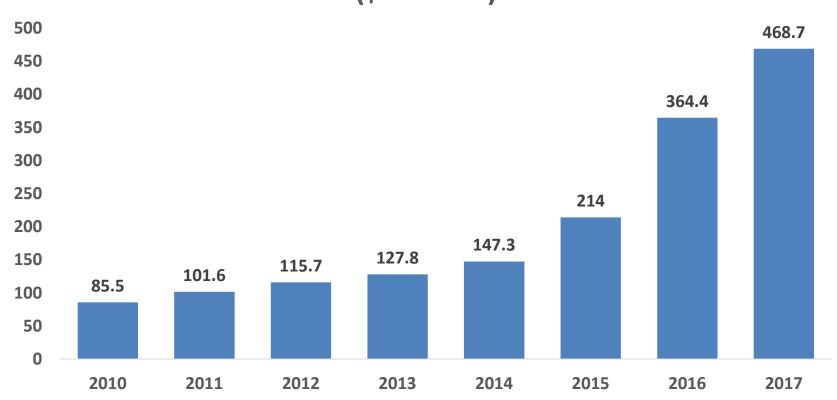
High Volume Shipping Segment





Revenue Growth

Annual Revenues (\$Millions)





DCF Model

Discounted Cash Flow Analysis for Stamps.com

Figures in thousands, except per share									
	Historical year ending December 31,		Projected year ending December 31,					2017-2022	
	2015	2016	2017	2018	2019	2020	2021	2022	CAGR
Sales	\$214.0	\$364.3	\$468.7	\$581.2	\$694.5	\$798.7	\$902.5	\$995.1	16.2%
Cost of goods sold	43.9	63.0	79.2	98.2	117.4	135.0	152.6	168.2	
Gross Profit	170.0	301.3	389.5	483.0	577.1	663.7	750.0	826.9	16.2%
SG&A	87.4	126.9	159.6	215.0	263.9	311.5	352.0	388.1	
EBITDA	82.6	174.4	229.9	267.9	313.2	352.2	398.0	438.8	13.8%
EBITDA Margin	38.6%	47.9%	49.1%	46.1%	45.1%	44.1%	44.1%	44.1%	
Less: Depreciation	(3.9)	(4.6)	(5.4)	(4.7)	(5.9)	(7.2)	(8.6)	(10.0)	
Less: Amortization	(3.8)	(14.6)	(16.0)	(16.0)	(16.0)	(16.0)	(16.0)	(16.0)	
Other Income (Expense)	3.5	13.9	15.6						
EBIT	78.8	169.7	224.5	247.7	291.8	329.5	373.9	413.3	13.0%
Less: Taxes @ 25.0%	(1.5)	(8.1)	(9.6)	(61.9)	(72.9)	(82.4)	(93.5)	(103.3)	
Tax-effected EBIT	77.4	161.5	214.9	185.8	218.8	247.1	280.4	310.0	7.6%
Adjustments	0.0	0.0	(3.1)						
Interset Expense	(0.3)	(3.2)	(3.3)	(4.0)	(4.8)	(5.5)	(6.3)	(6.9)	
Net Income Adj	77.1	158.3	208.5	181.8	214.0	241.5	274.1	303.0	
EPS Adj.	4.43	8.70	11.33	9.94	11.71	13.21	14.99	16.58	
Plus: Depreciation and amortization	7.7	19.2	21.4	20.7	21.9	23.2	24.6	26.0	
Less: Capital expenditures	(2.3)	(7.8)	(6.8)	(5.8)	(6.9)	(8.0)	(9.0)	(10.0)	
Less: Additions to intangibles	(75.0)	20.0	(16.0)	0.0	0.0	0.0	0.0	0.0	
(Increase)/decrease in working capital	35.8	(52.6)	(26.5)	(8.2)	(10.8)	(11.4)	(12.5)	(12.7)	
Unlevered Free Cash Flow	\$43.6	\$140.2	\$187.0	\$192.5	\$223.0	\$250.9	\$283.4	\$313.3	10.9%



Statement of Cash Flows

Cash Flow (in \$MM)					
	12 months		12 months		
For the Fiscal Period Ending	Dec-31-	12 months	Dec-31-	12 months	12 months
J	2013	Dec-31-2014	2015	Dec-31-2016	Dec-31-2017
Net Income	44.2	36.9	(4.2)	75.2	150.6
Depreciation & Amort.	2.3	3.2	3.9	4.6	5.4
Amort. of Goodwill and Intangibles	0.2	1.6	3.8	14.6	16.0
Depreciation & Amort., Total	2.5	4.8	7.7	19.2	21.4
Other Amortization	-	=	0.0	0.4	0.4
(Gain) Loss From Sale Of Assets	-	-	-	0.0	-
Stock-Based Compensation	4.5	4.8	15.9	33.9	40.8
Tax Benefit from Stock Options	-	_	(0.6)	(26.8)	-
Other Operating Activities	(9.7)	(4.8)	44.0	33.6	7.8
Change in Acc. Receivable	(3.1)	5.8	(32.5)	(6.5)	(18.0)
Change in Acc. Payable	(0.7)	6.6	16.1	20.1	15.9
Change in Unearned Rev.	(0.1)	0.2	0.8	(0.2)	0.0
Change in Inc. Taxes	-		-	-	(22.3)
Change in Other Net Operating Assets	(1.9)	(2.7)	(1.1)	(0.9)	1.2
Cash from Ops.	35.8	51.7	46.1	148.0	197.8
Capital Expenditure	(5.3)	(2.9)	(2.3)	(7.8)	(6.8)
	(5.5)	, ,	, ,	, ,	(0.8)
Cash Acquisitions Divestitures	-	(70.0)	(214.2)	(56.0)	-
	(2.6)	3.8	6.6	8.6	1.5
Invest. in Marketable & Equity Securt.	(3.6)	3.0	0.0	0.0	1.5
Net (Inc.) Dec. in Loans Originated/Sol	-	-	-	-	-
Other Investing Activities Cash from Investing	(8.9)	(69.1)	(209.9)	(55.2)	(5.3)
cush ironi mvesting	(0.5)	(03.1)	(203.3)	(33.2)	(3.3)
Short Term Debt Issued	-	-	13.3	2.2	1.7
Long-Term Debt Issued	-	_	162.6	-	-
Total Debt Issued	-	-	175.9	2.2	1.7
Short Term Debt Repaid	-	_	=	-	-
Long-Term Debt Repaid	-	_	(1.0)	(14.6)	(78.7)
Total Debt Repaid	-	-	(1.0)	(14.6)	(78.7)
Issuance of Common Stock	14.5	4.6	12.4	15.2	66.1
Repurchase of Common Stock	(4.3)	(12.9)	12.4	(80.6)	(134.6)
Reputchase of Common Stock	(4.3)	(12.9)	_	(80.0)	(134.0)
Total Dividends Paid	-	=	-	-	-
Special Dividend Paid	-	-	-	-	-
Other Financing Activities	-	_	0.6	26.8	-
Cash from Financing	10.2	(8.3)	188.0	(51.0)	(145.5)
Foreign Exchange Rate Adj.	_	=	_	=	_
Net Change in Cash	37.1	(25.7)	24.2	41.8	47.0



Balance Sheet

Balance Sheet (\$MM)					
Balance Sheet as of:	Dec-31-		Dec-31-		Dec-31-
balance sheet as or.		ec-31-2014		Dec-31-2016	2017
ASSETS	2013 D	ec-31-2014	2013 1	Jec-31-2010	2017
Cash And Equivalents	66.7	40.9	65.1	106.9	153.9
Short Term Investments	6.5	6.5	8.6	1.5	-
Total Cash & ST Investments	73.2	47.4	73.7	108.4	153.9
Accounts Receivable	17.5	12.3	55.1	62.8	80.8
Other Receivables					22.3
Total Receivables	17.5	12.3	55.1	62.8	103.1
Inventory	3.2	2.4	3.5	3.5	3.2
Other Current Assets	3.3	3.7	4.8	9.6	11.2
Total Current Assets	97.2	65.8	137.1	184.3	271.5
Gross Property, Plant & Equipment	38.7	42.9	48.1	57.0	63.1
Accumulated Depreciation	(9.0)	(12.5)	(16.4)	(20.2)	(25.6)
Net Property, Plant & Equipment	29.8	30.4	31.7	36.8	37.5
Long-term Investments	14.0	10.2	1.5	-	-
Goodwill	-	66.9	197.8	239.7	239.7
Other Intangibles	1.0	19.6	96.0	97.0	81.0
Deferred Tax Assets, LT	40.3	53.8	57.2	48.8	43.1
Other Long-Term Assets	4.8	8.0	7.3	3.5	6.3
Total Assets	<u> 187.1</u>	254.7	528.6	610.1	679.1
LIABILITIES					
Accounts Payable	2.0	2.2	0.5	1.0	1.0
Accrued Exp.	11.5	19.9	46.3	67.8	84.7
Short-term Borrowings	-	-	13.3	15.6	17.2
Curr. Port. of LT Debt	-	-	4.3	6.3	8.4
Unearned Revenue, Current	1.4	2.2	4.0	3.9	3.9
Other Current Liabilities	0.4	9.7	63.9	1.9	0.2
Total Current Liabilities	15.4	33.9	132.3	96.4	115.3
Long-Term Debt	-	-	157.4	141.0	60.6
Def. Tax Liability, Non-Curr.	-	-	-	-	-
Other Non-Current Liabilities		15.8	-	-	5.3
Total Liabilities	15.4	49.7	289.6	237.4	181.3
Common Stock	0.1	0.1	0.1	0.1	0.1
Additional Paid In Capital	668.7	678.1	716.3	855.3	962.2
Retained Earnings	(337.6)	(300.7)	(304.9)	(229.7)	(76.9)
Treasury Stock	(159.5)	(172.4)	(172.4)	(253.0)	(387.5)
Comprehensive Inc. and Other	0.1	0.1	0.0	0.0	0.0
Total Common Equity	171.8	205.0	239.0	372.7	497.8
Total Equity	171.8	205.0	239.0	372.7	497.8
Total Liabilities And Equity	187.1	254.7	528.6	610.1	679.1



Board Compensation

Name	Title	2017 Reported Executive Compensation (\$)
McBride, Kenneth T.	Chairman & CEO	8,126,770
, , , , , , , , , , , , , , , , , , , ,		<u> </u>
Huebner, Kyle K.	President	4,667,893
Carberry, Jeffrey	Chief Financial Officer	3,815,404
	Chief Product & Strategy	
Clem, John	Officer and GM of MetaPack	3,709,957
Buerba, Sebastian	Chief Marketing Officer	3,709,726



Top 10 Holders

Top 10 Holders

Institutions/ Insiders	%os	Position (000)	Mkt Val (MM)
Total	96.04	17,437	2,808
BlackRock Fund Advisors	12.36	2,244	361
The Vanguard Group, Inc.	9.23	1,676	270
Fidelity Management & Research Co.	6.76	1,227	198
ANANDA MOHAN P	3.53	641	103
SSgA Funds Management, Inc.	3.05	553	89
PAR Capital Management, Inc.	2.27	412	66
Conestoga Capital Advisors LLC	2.11	383	62
Renaissance Technologies LLC	1.97	358	58
Dimensional Fund Advisors LP	1.72	312	50
HHR Asset Management LLC	1.68	304	49



Sources Used

- Bloomberg
- S&P Capital IQ
- Company SEC Filings
- Earnings Calls
- Company Investor Presentation