

j2 Global Inc. (JCOM)

\$95.56 (As of 01/03/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

j2 Global's shares have outperformed the industry in the past year. The company is benefiting from solid performance of cloud services and the digital media business segments. Cloud services is gaining from higher subscription and license revenues. The company's effort to strengthen its speedtest intelligence service is driving subscription revenues. An expanding subscriber base for Humble Bundle is a positive. Acquisitions are also strengthening the company's footprint in service areas like VPN and security. However, weakness in the data backup business is a concern. Also, margins are likely to be under pressure as revenues from the Digital Media segment increase the top-line mix. Adjusted EBITDA is likely to be hurt by cybersecurity investments.

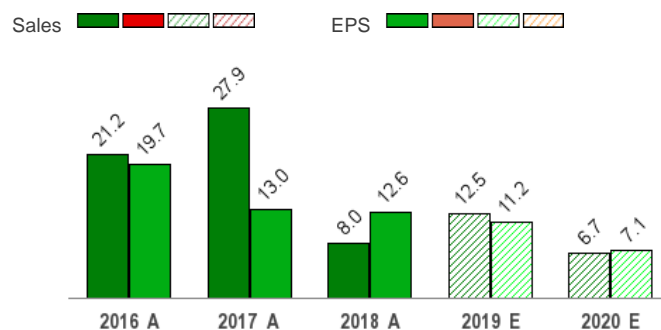
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$100.87 - \$67.70
20 Day Average Volume (sh)	333,336
Market Cap	\$4.7 B
YTD Price Change	2.0%
Beta	0.78
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Bottom 41% (148 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	14.0
P/E F1	12.6
PEG F1	1.6
P/S TTM	3.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	325 E	345 E	363 E	412 E	1,449 E
2019	300 A	322 A	344 A	391 E	1,358 E
2018	281 A	288 A	293 A	346 A	1,207 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.48 E	\$1.71 E	\$1.91 E	\$2.51 E	\$7.56 E
2019	\$1.40 A	\$1.60 A	\$1.70 A	\$2.37 E	\$7.06 E
2018	\$1.22 A	\$1.50 A	\$1.53 A	\$2.11 A	\$6.35 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

Overview

Incorporated in 2014, Los Angeles-based j2 Global Inc. provides Internet services. The company reported revenues of \$1.21 billion in 2018.

j2 Global reports primarily in two business segments: Cloud Services and Digital Media.

Cloud Services accounted for 49.5% of total revenues in 2018. The company generates most of the revenues from fixed subscriptions.

Through this segment the company offers fax, voice, backup, security and email marketing services. The reportable sub-segments are Fax & Email Marketing and Voice, Backup, & Security.

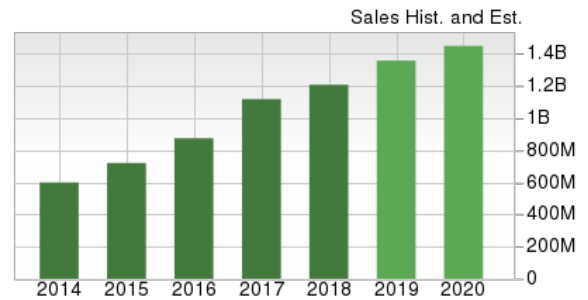
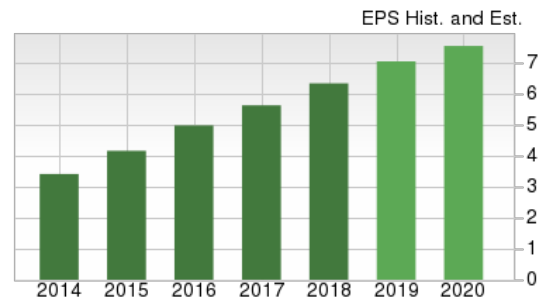
j2 Global's eFax is a leading brand in the global online fax market. Moreover, through the Campaigner brand, it provides email marketing solution to small, medium and large businesses.

Voice includes eVoice, Line 2 and Onebox services. The eVoice service is a virtual phone system that provides on-demand voice communications services. Line2 is a cloud phone service. Onebox service includes a virtual phone system, hosted email, online fax, audio conferencing and web conferencing.

j2 Global offers backup service through KeepItSafe, LiveDrive, LiveVault and SugarSync brands. KeepItSafe provides online backup and disaster recovery solutions for businesses. LiveDrive offers online backup and sync storage features for professionals and individuals. LiveVault provides cloud backup and recovery services. SugarSync provides online file backup, synchronization and sharing of documents, photos, music and movies across all devices, irrespective of the operating system or device platform.

Security solutions are offered through VIPRE, FuseMail and Excel Micro brands. VIPRE offers endpoint, email security and threat intelligence for real-time malware analysis. FuseMail offers email security, email archiving and hosted email. Excel Micro is a cloud security distributor that offers security solutions to retailers.

Digital Media accounted for 51.5% of revenues in 2018. The segment operates a portfolio of web properties and apps, including IGN, Mashable, PC Mag, Humble Bundle, Speedtest, Offers, Black Friday, AskMen, MedPageToday, Everyday Health and What to Expect, among others.



Reasons To Buy:

▲ j2 Global's performance marketing business has significant growth prospects. For 2019, management expects performance marketing to drive most of the growth in the Digital Media segment. Subscription revenues are estimated to grow rapidly driven by organic as well as benefits from acquisitions. The company's focus on offering programmatic ads that are well equipped to deliver higher return on investment (ROI) to advertisers is expected to drive top-line growth. Moreover, expansion into new verticals presents significant growth opportunity.

Focus on programmatic ad sales; growth-by-acquisition policy and strong demand for Ookla platform are key catalysts.

▲ Moreover, j2 Global's growth-by-acquisition policy holds promise. Notably, it acquired 11 companies in 2018 and 10 to-date in 2019. Strategic acquisitions have expanded the company's customer base, provided access to new markets and widened product line-up. Per management, benefit from acquisitions is one of the factors aiding Voice, Martech, and Security businesses that are growing rapidly. Ekahau and Castle Connolly acquisitions strengthen the company's position in the digital media space. The integration of Ekahau's software with Speedtest consumer application benefits the enterprises and customers in getting a better Wi-fi connection. Moreover, acquisitions like Downdetector and Mosaic bolstered its speed testing platform. These are expected to eventually drive subscription revenues in the long haul.

▲ The non-Cloud Fax businesses are significant growth drivers for j2 Global. j2 Global's Ookla speed testing platform, which is a data-as-a-service (DaaS) platform, has significant growth prospect due to its growing popularity globally. Additionally, the company's improving expertise in 5G, Internet of Things (IoT) and smart city analytics that j2 Global aims to capitalize in the long run.

▲ Expanding subscriber base for Humble Bundle is a positive. Humble Bundle business is a consumer subscription business, where users get access to a bundle of games at a steep discount and can be played at any time. The portfolio includes roughly 47 games, either launched or at development stage. Moreover, the company's focus on developing the Humble Publishing business is expected to boost the top line in the long haul.

Reasons To Sell:

- ▼ j2 Global faces significant pricing pressure in the display market as programmatic CPMs are generally lower. Margins are expected to remain under pressure in 2019, as revenue contribution from the lower margin Digital Media segment increases in the top-line mix. Moreover, increased costs related to j2 Global's plan to move to a cloud-based ERP system and investments in cybersecurity is expected to hurt adjusted EBITDA growth in 2019.
- ▼ Additionally, top-line growth continues to get negatively impacted by sluggishness in the data backup business. Notably, data backup revenues are estimated to decline high-single-digit in the near term.
- ▼ Moreover, increasing competition from social media companies like Facebook, which attract a major chunk of advertiser's budget, is hurting j2 Global's growth prospects.
- ▼ j2 Global is a leveraged company. Total long-term debt of the company as of Sep 30, 2019 stood at \$1.15 billion. Meanwhile, the company had approximately \$94.6 million in cash and investments.

Pricing pressure, high operating expenses and sluggishness in the pharma ad market raise concerns.

Last Earnings Report

j2 Global Q3 Earnings Beat Estimates, Revenues Up Y/Y

j2 Global reported third-quarter 2019 adjusted earnings of \$1.70 per share, beating the Zacks Consensus Estimate by a penny. The figure also grew 11.1% year over year.

Revenues were up 17.6% year over year to \$344.1 million, comfortably surpassing the consensus mark of \$332 million.

Average monthly revenue per customer decreased 9.4% to \$14.15. Cancel rate was 2.4%, up from 2.2% reported in the year-ago quarter.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	3.65%
EPS Surprise	0.59%
Quarterly EPS	1.70
Annual EPS (TTM)	6.81

Top-Line Details

Revenues from Cloud Services (49.7% of revenues) increased 14% from the year-ago quarter to \$171.2 million.

Subscriber revenues (99.9% of Cloud Services revenues) grew 14.1% to \$171 million, driven by 15.2% growth in fixed subscriber revenues (83% of Subscriber revenues). Variable subscriber revenues (17% of Subscriber revenues) climbed 8.8% year over year. Other licenses revenues (0.1% of Cloud Services revenues) declined 5% to \$0.2 million in the reported quarter.

Moreover, DID-based revenues edged down 1.7% to \$97.2 million. Non-DID revenues surged 44.4% year over year to \$73.9 million.

Digital Media revenues (50.3% of revenues) were \$173 million, up 21.3% year over year.

At the end of the reported quarter, j2 Global had 4,039 Cloud Services customers compared with 3,204 at the end of the year-ago quarter.

Operating Details

Adjusted gross margin contracted 120 basis points (bps) on a year-over-year basis to 82.3%. Cloud Services' adjusted gross margin shrank 190 bps to 38.8%. Digital Media adjusted gross margin expanded 70 bps to 43.5%.

Adjusted sales & marketing and general & administrative expenses flared up 19.6% and 24.8%, respectively, on a year-over-year basis. However, research, development & engineering expenses declined 2%.

Adjusted EBITDA margin shrank 150 bps to 39.2%. Cloud Services adjusted EBITDA margin contracted 120 bps on a year-over-year basis. Also, Digital Media adjusted EBITDA margin contracted 20 bps.

Adjusted operating margin descended 190 bps to 35.3%. Cloud Services and Digital Media adjusted operating margin contracted 130 bps and 60 bps, respectively, on a year-over-year basis.

Balance Sheet and Cash Flow

As of Sep 30, 2019, j2 Global had approximately \$94.6 million in cash and cash equivalents compared with \$155.5 million as of Jun 30, 2019.

Long-term debt as of Sep 30 was \$1.15 billion higher than \$1.12 billion as of Jun 30.

Cash flow from operations was \$99.5 million compared with \$95.4 million in the previous quarter.

Free cash flow was \$80.5 million compared with \$85.8 million in the prior quarter.

2019 Guidance Reiterated

j2 Global still expects revenues between \$1.33 billion and \$1.37 billion for 2019.

Additionally, the company continues to expect adjusted EBITDA of \$540-\$556 million.

Adjusted earnings are anticipated between \$6.95 and \$7.15 per share.

Recent News

On Nov 11, j2 announced a private offering of \$500 million convertible senior notes to qualified institutional buyers due in 2026.

On Oct 7, j2 Global announced the completion of four acquisitions in third-quarter 2019. These include certain assets of OffSiteDataSync and SaferVPN, equity and assets of BabyCenter, and equity of Spiceworks.

Valuation

Shares of j2 Global are up 8.2% in the six months period and 35.7% over the trailing 12-month period. Stocks in the Zacks sub-industry is down 6.7% while the Zacks Computer & Technology sector is up 13.3% in the six months period. Over the past year, the Zacks sub-industry and the sector are up 17% and 32.7%, respectively.

The S&P 500 index is up 9.2% in the six-months period and 25.6% in the past year.

The stock is currently trading at 3.21X forward 12-month sales, which compares to 6.03X for the Zacks sub-industry, 3.58X for the Zacks sector and 3.47X for the S&P 500 index.

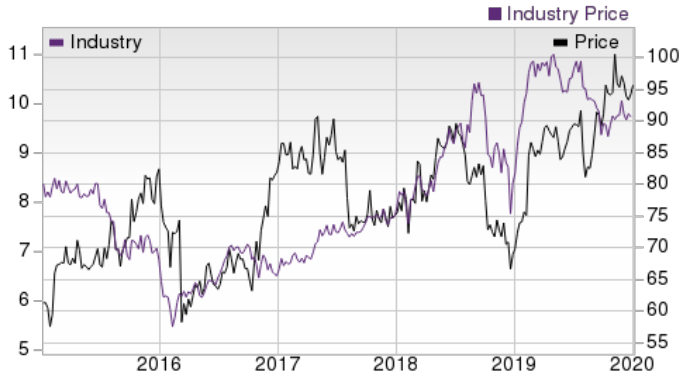
Over the past five years, the stock has traded as high as 5.01X and as low as 2.51X, with a 5-year median of 3.4X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$100 price target reflects 3.36X forward 12-month sales.

The table below shows summary valuation data for JCOM

Valuation Multiples - JCOM					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.21	6.03	3.58	3.47
	5-Year High	5.01	15.61	3.58	3.47
	5-Year Low	2.51	3.03	2.51	2.54
	5-Year Median	3.4	5.23	3.4	3
P/B TTM	Current	4.29	6.74	5.36	4.42
	5-Year High	4.72	8.06	5.36	4.42
	5-Year Low	3.09	2.28	3.13	2.85
	5-Year Median	3.95	5.15	4.21	3.6
EV/Sales TTM	Current	4.41	6.58	4.21	3.23
	5-Year High	6.29	11.57	4.21	3.3
	5-Year Low	3.34	3.01	2.54	2.14
	5-Year Median	4.37	5.99	3.42	2.79

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (148 out of 252)



Top Peers

Amazon.com, Inc. (AMZN)	Neutral
Alibaba Group Holding Limited (BABA)	Neutral
Ceridian HCM Holding Inc. (CDAY)	Neutral
Facebook, Inc. (FB)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Snap Inc. (SNAP)	Neutral
Twitter, Inc. (TWTR)	Neutral
MercadoLibre, Inc. (MELI)	Underperform

Industry Comparison Industry: Internet - Software				Industry Peers		
	JCOM Neutral	X Industry	S&P 500	FB Neutral	GOOGL Neutral	TWTR Neutral
VGM Score	A	-	-	B	C	D
Market Cap	4.66 B	630.74 M	23.66 B	595.07 B	939.02 B	24.47 B
# of Analysts	5	6	13	12	13	7
Dividend Yield	0.00%	0.00%	1.79%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	C	D
Cash/Price	0.02	0.11	0.04	0.09	0.13	0.23
EV/EBITDA	13.21	-1.80	13.88	18.57	18.92	19.34
PEG Ratio	1.58	2.34	1.99	1.11	1.49	1.31
Price/Book (P/B)	4.31	5.09	3.36	6.34	4.82	2.91
Price/Cash Flow (P/CF)	9.62	32.52	13.62	22.54	22.31	25.07
P/E (F1)	12.61	53.51	18.74	23.03	24.90	37.36
Price/Sales (P/S)	3.55	4.37	2.67	8.94	6.06	7.28
Earnings Yield	7.91%	0.81%	5.32%	4.34%	4.02%	2.66%
Debt/Equity	1.13	0.09	0.72	0.09	0.07	0.28
Cash Flow (\$/share)	9.94	-0.01	6.94	9.26	61.03	1.26
Growth Score	B	-	-	A	B	D
Hist. EPS Growth (3-5 yrs)	16.72%	16.72%	10.56%	58.03%	23.64%	NA
Proj. EPS Growth (F1/F0)	7.05%	15.09%	7.41%	42.16%	17.38%	-64.70%
Curr. Cash Flow Growth	11.86%	4.03%	14.83%	24.75%	44.22%	83.06%
Hist. Cash Flow Growth (3-5 yrs)	23.74%	14.52%	9.00%	60.23%	21.13%	30.79%
Current Ratio	0.84	1.53	1.23	4.66	3.78	8.69
Debt/Capital	52.97%	18.02%	42.92%	8.16%	6.59%	22.04%
Net Margin	11.15%	-14.19%	11.08%	27.08%	21.04%	47.67%
Return on Equity	29.54%	-12.09%	17.10%	20.39%	18.34%	6.07%
Sales/Assets	0.48	0.66	0.55	0.59	0.62	0.30
Proj. Sales Growth (F1/F0)	6.76%	17.93%	4.20%	21.46%	18.10%	14.69%
Momentum Score	B	-	-	D	C	B
Daily Price Chg	-0.08%	0.00%	-0.61%	-0.53%	-0.52%	-2.41%
1 Week Price Chg	0.94%	0.00%	0.13%	0.87%	0.25%	1.31%
4 Week Price Chg	-1.63%	0.00%	2.60%	4.67%	2.60%	4.93%
12 Week Price Chg	1.87%	1.71%	8.87%	15.91%	12.57%	-20.28%
52 Week Price Chg	42.71%	7.59%	29.34%	58.40%	32.77%	12.61%
20 Day Average Volume	333,336	259,475	1,603,615	12,376,816	1,191,893	11,716,745
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.05%	-0.26%
(F1) EPS Est 12 week change	1.96%	-0.19%	-0.57%	-4.94%	-2.18%	-45.39%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.07%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	B
Momentum Score	B
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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