

j2 Global Inc. (JCOM)

\$95.75 (As of 02/12/20)

Price Target (6-12 Months): **\$101.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: A

Summary

j2 Global reported impressive fourth-quarter 2019 results. The company witnessed year-over-year earnings and revenue growth, driven by solid performance of the cloud services and the digital media business segments. Cloud services benefited from higher fixed subscriber revenues. The company's effort to strengthen its speedtest intelligence service is driving subscription revenues. Acquisitions are also strengthening the company's footprint in service areas like VPN and security. The stock has outperformed the industry in the past year. 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. Additionally, adjusted EBITDA is likely to be hurt by cybersecurity investments.

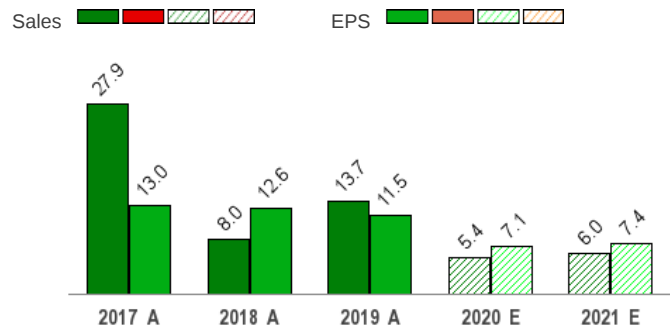
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$104.57 - \$78.00
20 Day Average Volume (sh)	390,800
Market Cap	\$4.7 B
YTD Price Change	2.2%
Beta	0.75
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 36% (91 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.4%
Last Sales Surprise	3.7%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	05/05/2020
Earnings ESP	-0.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	347 E	367 E	381 E	438 E	1,533 E
2020	325 E	345 E	363 E	412 E	1,446 E
2019	300 A	322 A	344 A	406 A	1,372 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.62 E	\$1.82 E	\$1.99 E	\$2.78 E	\$8.14 E
2020	\$1.47 E	\$1.67 E	\$1.91 E	\$2.55 E	\$7.58 E
2019	\$1.40 A	\$1.60 A	\$1.70 A	\$2.38 A	\$7.08 A

*Quarterly figures may not add up to annual.

P/E TTM	13.5
P/E F1	12.6
PEG F1	1.6
P/S TTM	3.4

The data in the charts and tables, except sales and EPS estimates, is as of 02/12/2020. The reports text and the analyst-provided sales and EPS estimates are as of 02/13/2020.

Overview

Incorporated in 2014, Los Angeles-based j2 Global Inc. provides Internet services. The company reported revenues of \$1.37 billion in 2019. j2 Global reports primarily in two business segments: Cloud Services and Digital Media.

Cloud Services accounted for 48.2% of total revenues in 2019. 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.

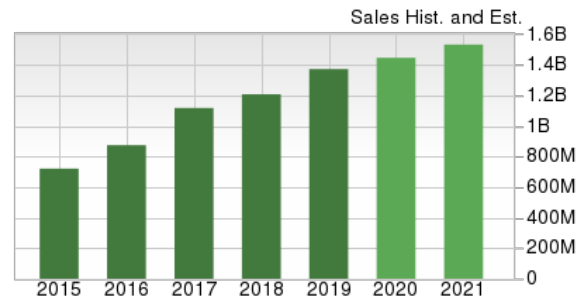
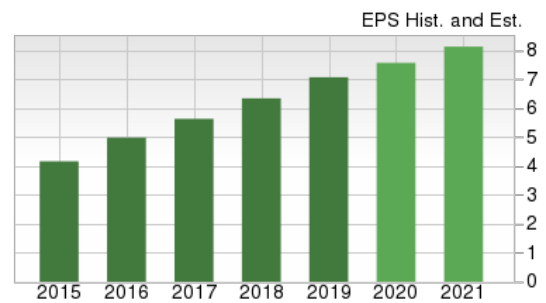
Voice includes eVoice, Line 2 and Onebox services. The eVoice service is a virtual phone system that provides on-demand voice communications services. Line2 is a cloud phone service. Onebox service includes a virtual phone system, hosted email, online fax, audio conferencing and web conferencing.

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. Sugar Sync 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 51.8% of revenues in 2019. The segment operates a portfolio of web properties and apps, including IGN, Mashable, PC Mag, Humble Bundle, Speed test, Offers, Black Friday, AskMen, MedPage Today, Everyday Health and What to Expect, among others.

The company generates revenues from advertising, commissions on sales attributed to clicks to online merchants, business-to-business leads to IT vendors, licensing fees and subscription services.



Reasons To Buy:

▲ j2 Global's top-line grew 13.6% in 2019 that surpassed management's expectation by \$40 million. The company expects 2020 revenues between \$1.47 billion and \$1.51 billion, up 7-10% from 2019. j2 Global expects digital media to grow around 10% at the midpoint, while Cloud Services at around 5%. Gaming, broadband, B2B, parenting & pregnancy and everyday health professional are major growth drivers for the digital media segment. Cloud Services is expected to benefit from the company's growing privacy (projected to grow double-digit) and corporate tax (expected to be up 10%) businesses.

Growth-by-acquisition policy and strong demand for Ookla platform as well as Humble Bundle service are key catalysts.

▲ j2 Global's growth-by-acquisition policy holds promise. Notably, it acquired 11 companies in 2018 and 12 in 2019. The company completed four important transactions — iContact, IPVanish, BabyCenter and Spiceworks — in 2019. Strategic acquisitions have expanded the company's customer base, provided access to new markets and widened product line-up. 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. Ekahau is expected to grow more than 30% in 2020. Moreover, acquisitions like Down detector and Mosaic bolstered its speed testing platform. These are expected to eventually drive subscription revenues in the long haul.

▲ 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. Ookla's data subscription service, Speedtest Intelligence, experienced higher renewal rates in 2019. The company expects to launch Speedtest VPN in collaboration with IPVanish in the near future. The beta launch of the solution has showed promising results. 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 company is becoming one of the largest publishers of Indie titles in the industry and expects to have about 40 games (including 20 launches) in its library by the end of 2020. Moreover, the company's focus on developing the Humble Publishing business is expected to boost the top line. Additionally, the upcoming launch of gaming consoles is expected to benefit the IGN segment 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 2020, as revenue contribution from the lower margin Digital Media segment increases in the top-line mix. Additionally, top-line growth continues to get negatively impacted by sluggishness in the data backup business.
- ▼ Margins are expected to remain under pressure due to higher expenses related to Spiceworks and BabyCenter, which were unprofitable during their acquisition, investments related to Humble Publishing, and lower margins from the backup business. Moreover, continuing investments in financial and information security systems are expected to hurt profitability in 2020. EBITDA is expected to grow 5-8%, almost 200 basis points (bps) lower than revenues.
- ▼ 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 Dec 31, 2019, stood at \$1.45 billion. Meanwhile, the company had approximately \$575.6 million in cash and investments.

Pricing pressure, sluggish data backup business, increasing operating expenses and stiff competition raise concerns.

Last Earnings Report

j2 Global Q4 Earnings Beat Estimates, Revenues Up Y/Y

j2 Global reported fourth-quarter 2019 adjusted earnings of \$2.38 per share, beating the Zacks Consensus Estimate by 0.4% and growing 12.8% year over year.

Revenues were up 17.2% year over year to \$405.6 million, comfortably surpassing the consensus mark by 3.7%.

Average monthly revenue per customer decreased 9.9% to \$13.96. Cancel rate was 2.4%, up from 2.1% reported in the year-ago quarter.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	3.68%
EPS Surprise	0.42%
Quarterly EPS	2.38
Annual EPS (TTM)	7.08

Top-Line Details

Revenues from Cloud Services (41.7% of revenues) increased 14.3% from the year-ago quarter to \$169.3 million.

Subscriber revenues (99.9% of Cloud Services revenues) rose 14.3% year over year to \$169.1 million, driven by 18% growth in fixed subscriber revenues (84.7% of Subscriber revenues). Variable subscriber revenues (15.3% of Subscriber revenues) declined 2.6% year over year to \$25.9. Other licenses revenues (0.1% of Cloud Services revenues) decreased 4.4% to \$0.2 million in the reported quarter.

Moreover, DID-based revenues edged down 0.3% to \$96.7 million. Non-DID revenues surged 42.1% year over year to \$72.6 million.

Digital Media revenues (58.3% of revenues) were \$236.3 million, up 19.4% year over year.

At the end of the reported quarter, j2 Global had 4,036 Cloud Services customers compared with 3,165 at the end of the year-ago quarter.

Operating Details

Adjusted gross margin expanded 30 basis points (bps) on a year-over-year basis to 84.3%. Cloud Services' adjusted gross margin shrank 190 bps to 32.8%. Digital Media adjusted gross margin expanded 220 bps to 51.5%.

Adjusted sales & marketing, general & administrative and research, development & engineering expenses flared up 20.3%, 22.4% and 23%, respectively, on a year-over-year basis.

Adjusted EBITDA margin shrank 110 bps to 43.5%. Cloud Services adjusted EBITDA margin contracted 200 bps on a year-over-year basis. However, Digital Media adjusted EBITDA margin expanded 120 bps.

Adjusted operating margin descended 100 bps to 40.3%. While Cloud Services adjusted operating margin contracted 200 bps on a year-over-year basis, Digital Media operating margin expanded 100 bps.

Balance Sheet and Cash Flow

As of Dec 31, 2019, j2 Global had approximately \$575.6 million in cash and cash equivalents compared with \$94.6 million as of Sep 30.

Long-term debt, as of Dec 31, was \$1.45 billion, higher than \$1.15 billion as of Sep 30.

Free cash flow was \$82.1 million compared with \$80.5 million in the prior quarter.

2020 Guidance

j2 Global expects revenues between \$1.47 billion and \$1.51 billion for 2020.

Additionally, the company continues to expect adjusted EBITDA of \$575-\$595 million.

Adjusted earnings are anticipated between \$7.36 and \$7.66 per share.

For the Cloud Services segment, revenue growth is expected to be roughly 5% year over year. Adjusted EBITDA margin is expected to be unchanged at approximately 50%.

For the Digital Media segment, revenue growth is expected to be more than 10% year over year. Adjusted EBITDA margin is expected to be approximately 34%.

Recent News

On Jan 4, j2 Global announced that it completed two acquisitions — FES IQ (certain assets) and Buffered VPN (certain assets) — in the fourth quarter of 2019.

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 and 25.6% in the past year.

The stock is currently trading at 3.2X forward 12-month sales, which compares to 6.57X for the Zacks sub-industry, 3.76X for the Zacks sector and 3.56X 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 3.39X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$101 price target reflects 3.38X 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	3.2	6.57	3.76	3.56
	5-Year High	5.01	15.61	3.76	3.56
	5-Year Low	2.51	3.06	2.3	2.54
	5-Year Median	3.39	5.35	3.02	3
P/B TTM	Current	4.3	7.54	5.7	4.33
	5-Year High	4.72	8.23	5.7	4.42
	5-Year Low	3.09	2.29	3.13	2.85
	5-Year Median	3.97	5.19	4.24	3.62
EV/Sales TTM	Current	4.11	7.35	4.47	3.09
	5-Year High	6.29	11.57	4.47	3.27
	5-Year Low	3.34	3.04	2.56	2.15
	5-Year Median	4.35	6.03	3.46	2.77

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 36% (91 out of 254)



Top Peers

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

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	F
Market Cap	4.67 B	655.75 M	24.53 B	600.76 B	1,047.38 B	28.56 B
# of Analysts	5	5.5	13	16	15	11
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.00%	0.00%
Value Score	B	-	-	C	D	D
Cash/Price	0.02	0.11	0.04	0.09	0.12	0.23
EV/EBITDA	13.98	-1.84	13.98	18.18	18.33	22.62
PEG Ratio	1.58	2.56	2.09	1.26	1.70	1.70
Price/Book (P/B)	3.56	5.35	3.29	5.95	5.20	3.28
Price/Cash Flow (P/CF)	8.05	36.04	13.69	24.81	21.91	13.35
P/E (F1)	12.63	48.76	19.19	22.71	27.86	42.42
Price/Sales (P/S)	3.40	4.58	2.68	8.50	6.47	8.26
Earnings Yield	7.92%	0.78%	5.21%	4.40%	3.59%	2.36%
Debt/Equity	1.18	0.10	0.71	0.09	0.07	0.36
Cash Flow (\$/share)	11.90	-0.03	6.92	8.49	69.32	2.76
Growth Score	B	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	16.72%	16.72%	10.85%	53.35%	24.24%	NA
Proj. EPS Growth (F1/F0)	7.06%	12.55%	7.30%	44.32%	10.87%	-63.41%
Curr. Cash Flow Growth	18.38%	1.28%	8.56%	-8.33%	12.62%	123.58%
Hist. Cash Flow Growth (3-5 yrs)	23.74%	14.22%	8.36%	38.21%	19.91%	55.36%
Current Ratio	1.98	1.57	1.23	4.40	3.37	9.15
Debt/Capital	54.21%	15.66%	42.91%	8.61%	6.83%	26.38%
Net Margin	15.95%	-14.43%	11.81%	26.15%	21.22%	42.37%
Return on Equity	28.61%	-13.19%	16.92%	19.97%	18.66%	4.87%
Sales/Assets	0.46	0.64	0.54	0.58	0.62	0.29
Proj. Sales Growth (F1/F0)	5.64%	18.76%	3.96%	21.12%	17.66%	14.61%
Momentum Score	A	-	-	A	F	F
Daily Price Chg	0.04%	0.00%	0.64%	1.72%	0.57%	3.20%
1 Week Price Chg	2.85%	0.64%	2.47%	5.16%	3.23%	14.01%
4 Week Price Chg	-5.84%	0.00%	1.87%	-4.70%	5.52%	10.71%
12 Week Price Chg	-0.90%	5.79%	6.69%	6.71%	16.65%	26.12%
52 Week Price Chg	16.94%	-0.48%	16.42%	28.46%	34.56%	18.22%
20 Day Average Volume	390,800	319,228	2,019,212	16,881,170	1,858,586	19,382,770
(F1) EPS Est 1 week change	0.31%	0.00%	0.00%	0.00%	0.00%	-18.15%
(F1) EPS Est 4 week change	0.31%	0.00%	-0.06%	2.40%	-0.45%	1.50%
(F1) EPS Est 12 week change	0.83%	-0.54%	-0.19%	2.04%	-0.33%	-3.40%
(Q1) EPS Est Mthly Chg	0.54%	0.00%	-0.16%	1.81%	-1.17%	-36.25%

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	A
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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