

J2 Global Inc. (JCOM)

\$70.20 (As of 08/14/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/14/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: A

Growth: B

Momentum: C

Summary

J2 Global's second-quarter 2020 results benefited from robust performance by Digital Media segment. The company's advertising business has low exposure to local, travel, food, and automotive, industry verticals most affected by the coronavirus. This, along with healthy display business (almost 40% healthcare), drove top-line growth. However, the company witnessed sluggishness in larger cloud-fax deployments. Moreover, lower corporate fax-page volumes from healthcare customers due to deferment of elective surgeries impeded growth. Nevertheless, J2 Global reinstalled 2020 guidance. It now expects more of a tilted U-shaped recovery against a V-shaped recovery. Moreover, divestment of Australia and New Zealand voice assets is expected to reduce second-half 2020 revenues and EBITDA. The stock has underperformed the industry year to date.

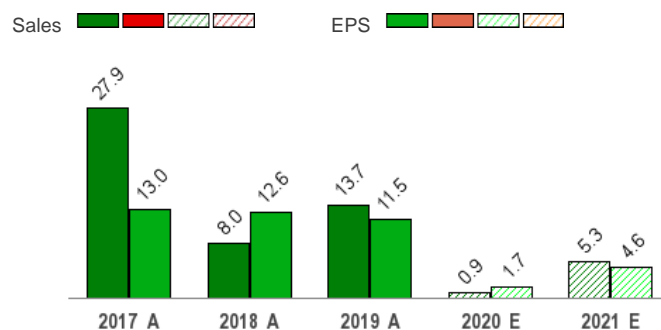
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$104.57 - \$53.25
20 Day Average Volume (sh)	916,171
Market Cap	\$3.3 B
YTD Price Change	-25.1%
Beta	0.66
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software
Zacks Industry Rank	Top 42% (106 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	17.1%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	NA
Earnings ESP	0.0%

P/E TTM	9.8
P/E F1	9.8
PEG F1	1.2
P/S TTM	2.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	341 E	330 E	357 E	426 E	1,459 E
2020	332 A	331 A	338 E	399 E	1,385 E
2019	300 A	322 A	344 A	406 A	1,372 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.58 E	\$1.70 E	\$1.79 E	\$2.49 E	\$7.53 E
2020	\$1.40 A	\$1.71 A	\$1.76 E	\$2.42 E	\$7.20 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/14/2020. The reports text is as of 08/17/2020.

Overview

Incorporated in 2014, Los Angeles-based J2 Global Inc. provides Internet services. The company reported revenues of \$1.37 billion in 2019. It 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.

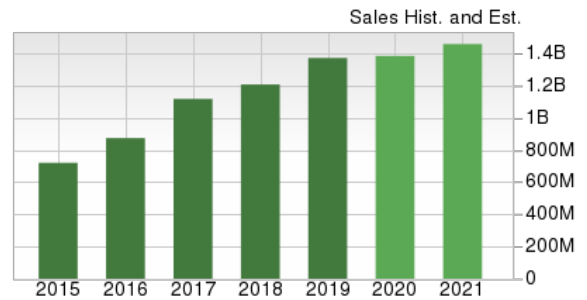
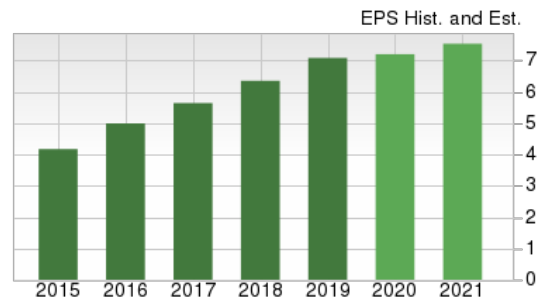
Voice includes eVoice, Line 2 and Onebox services. The eVoice service is a virtual phone system that provides on-demand voice communications services. Line2 is a cloud phone service. Onebox service includes a virtual phone system, hosted email, online fax, audio conferencing and web conferencing.

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 service



Reasons To Buy:

- ▲ J2 Global's digital media segment top-line growth is expected to be driven by gaming, broadband, B2B, parenting & pregnancy and everyday health professional businesses. Cloud Services is expected to benefit from the company's growing privacy and corporate fax businesses. Notably, at the end of the second quarter, J2 Global had 4,076 Cloud Services customers compared with 4,015 at the end of the year-ago quarter.
- ▲ Coronavirus-led work-from-home wave bodes well for J2 Global as its security, privacy and voice services are considered indispensable to a remote working set-up. The company witnessed solid demand for eFax in North America recently. Voice and MarTech services businesses also found a new lease of life from extensive remote working.
- ▲ 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 19 launches) in its library by the end of 2020. Additionally, 60 games are in development pipeline for the future. 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.

Growth-by-acquisition policy, strong demand for Ookla platform as well as Humble Bundle service and remote working wave bodes well for J2 Global.

Reasons To Sell:

- ▼ Coronavirus outbreak negatively impacted J2 Global Cloud Services business. The company witnessed sluggishness in larger cloud fax deployments. Moreover, lower corporate fax page volumes from healthcare customers due to deferment of elective surgeries impeded growth. It also experienced some losses and reductions of larger contracts and a slowdown in customer ads..
- ▼ J2 Global faces significant pricing pressure in the display ad 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.
- ▼ 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. Additionally, unfavorable forex is a major headwind.
- ▼ J2 Global also has a leveraged balance sheet. As of Jun 30, 2020, the company's net debt was \$1.07 billion much higher than cash balance of \$616.8 million. This significant debt burden might hinder the stock's prospects in the near term.

Adverse impact of coronavirus, pricing pressure, sluggish data backup business, increasing operating expenses, and stiff competition raise concerns.

Last Earnings Report

J2 Global Beats on Q2 Earnings, Revenues Rise Y/Y

J2 Global reported second-quarter 2020 adjusted earnings of \$1.71 per share, which beat the Zacks Consensus Estimate by 17.1% and increased 6.9% year over year.

Revenues were up 2.7% year over year to \$331 million, beating the consensus mark by 5.2%.

Average monthly revenue per customer decreased 2.5% year over year to \$13.66. Cancel rate was 2.2%, down 30 basis points (bps) year over year.

Quarter Ending **06/2020**

Report Date	Aug 10, 2020
Sales Surprise	5.24%
EPS Surprise	17.12%
Quarterly EPS	1.71
Annual EPS (TTM)	7.19

Top-Line Details

Revenues from Cloud Services (50.5% of revenues) decreased 1.2% from the year-ago quarter to \$167.1 million.

Subscriber revenues (100% of Cloud Services revenues) fell 1.1% year over year to \$167 million, primarily attributed to 8% decline in variable-subscriber revenues (15.7% of Subscriber revenues), which totaled \$26.3 million. Fixed-subscriber revenues (84.3% of Subscriber revenues) climbed 0.3% year over year to \$140.8 million.

Moreover, DID-based revenues slid 2.5% year over year to \$95 million. Non-DID revenues inched up 0.4% year over year to \$72.1 million.

Digital Media revenues (49.5% of revenues) were \$163.9 million, up 6.9% year over year.

At the end of the reported quarter, J2 Global had 4,076 Cloud Services customers compared with 4,015 at the end of the year-ago quarter.

Operating Details

Adjusted gross margin expanded 150 bps on a year-over-year basis to 83%. Cloud Services' adjusted gross margin shrank 250 bps to 38.8%. Digital Media adjusted gross margin expanded 410 bps to 44.3%.

Adjusted sales & marketing, general & administrative, and research, development & engineering expenses flared up 4.5%, 13.6% and 1.8%, respectively, on a year-over-year basis.

Adjusted EBITDA margin expanded 130 bps on a year-over-year basis to 40.1%. Cloud Services adjusted EBITDA margin increased 40 bps on a year-over-year basis. However, Digital Media adjusted EBITDA margin declined 60 bps.

Adjusted operating margin expanded 80 bps year over year to 35.9%. While Cloud Services adjusted operating margin contracted 230 bps, Digital Media adjusted operating margin expanded 290 bps on a year-over-year basis.

Balance Sheet and Cash Flow

As of Jun 30, 2020, J2 Global had \$616.8 million in cash and cash equivalents compared with \$526.6 million as of Mar 31, 2020.

Long-term debt as of Jun 30, 2020 was \$1.07 billion, lower than \$1.46 billion as of Mar 31, 2020.

Free cash flow was \$115.9 million, up 35.1% year over year.

Moreover, the company approved a new share-repurchase program under which J2 Global can purchase up to 10 million shares in the public market or in off-market transactions through Aug 6, 2025.

Guidance

For 2020, J2 Global now expects revenues between \$1.380 billion and \$1.400 billion. Adjusted EBITDA is expected between \$556 million and \$570 million. Moreover, adjusted non-GAAP earnings are expected between \$7.17 and \$7.41 per share.

Recent News

On Apr 7, J2 Global announced that it completed two acquisitions — Migraine Again (certain assets) and SRFax (certain assets) — in the first quarter of 2020.

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.

Valuation

Shares of J2 Global are down 25.1% in the year-to-date period and 15.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 54.5% and 20.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and the sector are up 41.4% and 34.7%, respectively.

The S&P 500 index is up 4.5% in the year-to-date period and 15.4% in the past year.

The stock is currently trading at 2.33X forward 12-month sales, which compares to 8.11X for the Zacks sub-industry, 4.06X for the Zacks sector and 3.7X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.01X and as low as 1.83X, with a 5-year median of 3.27X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$74 price target reflects 2.45X 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	2.33	8.11	4.06	3.7
	5-Year High	5.01	8.56	4.06	3.7
	5-Year Low	1.83	3.01	2.32	2.53
	5-Year Median	3.27	5.27	3.14	3.05
P/B TTM	Current	2.65	10.35	6.26	4.7
	5-Year High	4.72	11.04	6.34	4.71
	5-Year Low	2.05	2.28	3.16	2.83
	5-Year Median	3.85	5.29	4.44	3.74
EV/Sales TTM	Current	2.76	10.21	4.67	3.27
	5-Year High	6.29	10.85	4.67	3.46
	5-Year Low	2.22	3.02	2.58	2.14
	5-Year Median	4.23	5.95	3.65	2.86

As of 08/14/2020

Industry Analysis Zacks Industry Rank: Top 42% (106 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. (AMZN)	Neutral	3
Alibaba Group Holding Limited (BABA)	Neutral	3
Ceridian HCM Holding Inc. (CDAY)	Neutral	3
Facebook, Inc. (FB)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
MercadoLibre, Inc. (MELI)	Neutral	3
Snap Inc. (SNAP)	Neutral	3
Twitter, Inc. (TWTR)	Neutral	3

Industry Comparison Industry: Internet - Software				Industry Peers		
	JCOM	X Industry	S&P 500	FB	GOOGL	TWTR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	B	B	F
Market Cap	3.34 B	992.13 M	23.68 B	744.22 B	1,023.40 B	29.98 B
# of Analysts	6	5	14	12	12	9
Dividend Yield	0.00%	0.00%	1.68%	0.00%	0.00%	0.00%
Value Score	A	-	-	C	C	D
Cash/Price	0.18	0.09	0.07	0.08	0.12	0.26
EV/EBITDA	7.41	-0.87	13.36	22.77	17.84	23.66
PEG Ratio	1.22	4.59	2.99	1.72	2.06	NA
Price/Book (P/B)	2.65	7.29	3.22	6.74	4.94	3.91
Price/Cash Flow (P/CF)	5.90	29.54	12.82	30.75	21.66	13.75
P/E (F1)	9.75	82.65	22.06	32.43	33.63	NA
Price/Sales (P/S)	2.36	4.81	2.51	9.90	6.16	9.02
Earnings Yield	10.26%	0.25%	4.30%	3.09%	2.97%	-1.42%
Debt/Equity	0.92	0.15	0.77	0.09	0.07	0.52
Cash Flow (\$/share)	11.90	-0.00	6.94	8.49	69.45	2.76
Growth Score	B	-	-	B	B	D
Hist. EPS Growth (3-5 yrs)	16.26%	16.26%	10.41%	42.58%	22.11%	NA
Proj. EPS Growth (F1/F0)	1.69%	-1.38%	-6.32%	25.28%	-9.00%	-122.64%
Curr. Cash Flow Growth	18.38%	6.87%	5.20%	-8.33%	12.62%	123.58%
Hist. Cash Flow Growth (3-5 yrs)	20.21%	21.83%	8.55%	38.21%	19.91%	55.36%
Current Ratio	1.10	1.54	1.33	6.02	3.41	10.10
Debt/Capital	47.93%	25.82%	44.59%	8.02%	6.63%	34.24%
Net Margin	13.13%	-17.73%	10.13%	31.29%	18.99%	-32.54%
Return on Equity	26.56%	-13.96%	14.51%	22.90%	15.62%	-12.17%
Sales/Assets	0.43	0.59	0.51	0.56	0.61	0.26
Proj. Sales Growth (F1/F0)	1.09%	6.62%	-1.43%	13.48%	7.51%	-5.46%
Momentum Score	C	-	-	C	C	F
Daily Price Chg	0.10%	-0.34%	0.12%	-0.02%	-0.79%	0.21%
1 Week Price Chg	8.20%	0.00%	2.30%	5.82%	0.70%	2.03%
4 Week Price Chg	26.53%	1.93%	4.41%	8.43%	-0.68%	7.43%
12 Week Price Chg	-6.92%	15.66%	13.66%	12.90%	6.96%	17.19%
52 Week Price Chg	-13.43%	11.85%	5.80%	43.08%	28.68%	-5.46%
20 Day Average Volume	916,171	538,279	1,984,154	24,858,272	1,645,016	19,696,220
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-1.49%	0.00%	2.08%	12.98%	7.62%	-1,161.35%
(F1) EPS Est 12 week change	-1.49%	3.45%	2.66%	13.19%	7.88%	-1,161.35%
(Q1) EPS Est Mthly Chg	0.32%	0.00%	0.94%	14.66%	8.99%	5.71%

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	A
Growth Score	B
Momentum Score	C
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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