LogMeIn, Inc. (LOGM)

$86.05 (As of 01/06/20)

Price Target (6-12 Months): **$90.00**

Long Term: 6-12 Months	**Zacks Recommendation:**	**Neutral**
	(Since: 01/03/20)	
	Prior Recommendation: Outperform	
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:B
	Value: C | Growth: C	Momentum: A

Summary

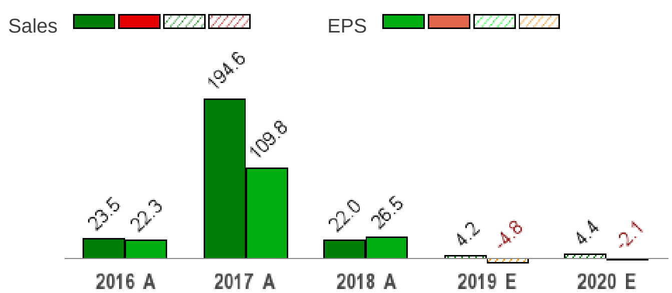
LogMeIn is gaining from strong performance of its growth products Jive and LastPass. Improvement in product quality and performance, multiple product launches and increasing marketing efforts in support of the company's new GoTo brand is a positive. The newly launched GoToConnect and GoToRoom products also make the management optimistic about the stock's prospects. The expansion of its product portfolio coupled with its rising sales initiatives is expected to accelerate its growth momentum in major markets, namely UCC, IDaaS and Digital Engagement, going forward. However, intensifying competition from Zoom, Adobe Connect, Google and Microsoft Skype raises concerns. Product consolidation and legacy pressures are anticipated to persist as a bane for Customer Engagement segment.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$96.87 - $62.02**
20 Day Average Volume (sh)	**1,208,269**
Market Cap	**$4.3 B**
YTD Price Change	**0.4%**
Beta	**1.13**
Dividend / Div Yld	**$1.30 / 1.5%**
Industry	**Computer - Services**
Zacks Industry Rank	**Top 7% (18 out of 254)**
Last EPS Surprise	**2.2%**
Last Sales Surprise	**0.6%**
EPS F1 Est- 4 week change	**0.3%**
Expected Report Date	**02/13/2020**
Earnings ESP	**1.0%**
P/E TTM	**16.6**
P/E F1	**17.1**
PEG F1	**1.4**
P/S TTM	**3.4**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	321 E	326 E	333 E	338 E	1,315 E
2019	308 A	313 A	317 A	320 E	1,259 E
2018	279 A	306 A	310 A	311 A	1,208 A

EPS Estimates

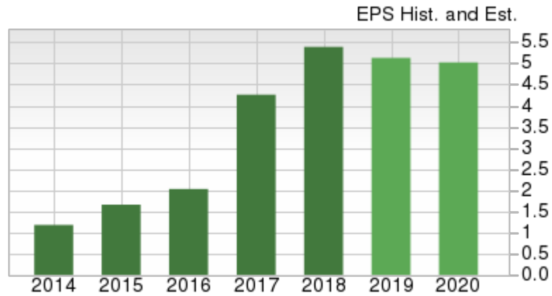
	Q1	Q2	Q3	Q4	Annual*
2020	$1.21 E	$1.22 E	$1.29 E	$1.32 E	$5.02 E
2019	$1.17 A	$1.17 A	$1.39 A	$1.40 E	$5.13 E
2018	$1.21 A	$1.32 A	$1.40 A	$1.47 A	$5.39 A

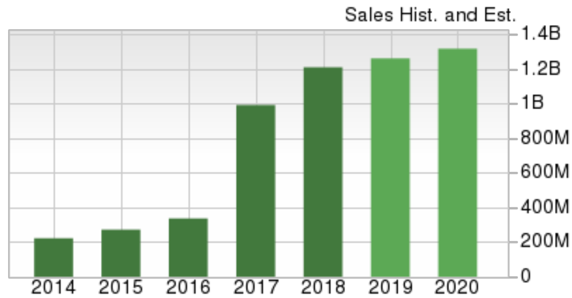
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/06/2020. The reports text is as of 01/07/2020.

Overview

LogMeIn, headquartered near Boston in Woburn, MA, is a leading provider of on-demand, remote-connectivity and support solutions to small businesses, IT service providers and consumers. The company has additional locations in North America, South America, Europe, Asia and Australia.





LogMeIn's software-as-a-service (SaaS) suite of solutions includes capabilities for on-demand customer support of PCs, smartphones and other devices, systems administration, remote access, remote control, file-sharing, virtual private networking, data back-up and online meeting.

The company's cloud-based services can be categorized into three business lines:

Unified Communications and Collaboration (56% of 2018 revenues) portfolio consists of solutions like GoToConference — a video and audio conferencing solution; GoToMeeting — a product for online meetings, sales demonstrations and collaborative gatherings; GoToTraining — an online training product; GoToWebinar — a do-it-yourself Webinar product for companies; Grasshopper, Jive, join.me and OpenVoice.

Identity and Access Management (29%) portfolio include web-based management console LogMeIn Central, premium remote access service LogMeIn Pro, password management and single sign on (SSO) solution LastPass and GoToMyPC which provides secure, remote access to a PC or Mac.

Customer Engagement and Support (15%) portfolio has omni-channel engagement platform —Bold360; and an automated customer service, help-desk and CRM platform — Bold360 ai; RescueAssist, GoToAssist Corporate and GoToAssist Seeit — which provide cloud-based remote support solutions to remotely troubleshoot and fix computers, mobile devices and apps etc; and LogMeIn Rescue.

In 2018, the company delivered revenues of $1.2 billion. Geographically, LogMeIn generates majority of its revenues from the United States which contributed 77.5% to 2018 revenues. The U.K. and all other International market contributed 4.6% and 17.9%, respectively.

The company derives revenues, primarily on the back of customers' subscription fees, ranging from individual consumers to small and medium businesses (SMBs) and multi-national enterprises.

Reasons To Buy:

Strategic acquisitions, product strength and a healthy balance sheet bode well for LogMeIn

- LogMeIn has resorted to acquisitions to enhance its capabilities and tap the solid growth opportunities in newer markets. Since its listing on the NASDAQ Stock Exchange, the company has acquired as many as eight companies, opening up new avenues of growth. For example, the acquisition of Bold Software helped LogMeIn offer additional features and capabilities. Later on, the buyout of Zamurai in 2015 brought the join.me app to its kitty which helped LogMeIn expand its capabilities in the collaboration and video conferencing area. The acquisition of GetGo assets from Citrix in 2017 and the recently-acquired Jive Communications further strengthen its position in the collaboration space. These acquisitions have helped LogMeIn expand its total addressable market (TAM) and solidify the company's presence in the broad IT support market.

- We believe the recent acquisition of Jive Communications to have provided the missing links in the Unified Communications and Collaborations (UCC) space for LogMeIn. Jive Communications, which offers cloud-based phone systems and Unified Communications (UC) services, is one of the fastest growing companies in the Unified Communications-as-a-Service (UCaaS) space. Therefore, apart from bolstering its existing communications and collaboration portfolio, the buyout will assist LogMeIn to enter into the business telephony market. With the integration of Jive Communications' services with the company's existing offerings, like GoToMeeting, GoToTraining, GoToWebinar, OpenVoice, Grasshopper and join.me, LogMeIn will have now a large cross-sell opportunity. Also, with this buyout the company will now be able to accelerate its own UCaaS strategy.

- LogMeIn has a debt free balance sheet with cash and cash equivalents of $119.2 million as of Sep 30, 2019. Furthermore, during the third quarter of 2019, the company generated $88.1 million of adjusted cash flow from operational activities and $69.6 million of adjusted free cash flow. This provides LogMeIn with ample liquidity for pursuing strategic acquisitions, investment in growth initiatives and distribution to its shareholders.

Reasons To Sell:

Increasing expenses and stiff competition remain primary headwinds.

- The market in which LogMeIn operates is continuously evolving and competition is intensifying with each passing year. In the last few quarters, the popularity of Slack and Zoom has increased immensely which may pose a threat to LogMeIn in the form of pricing, as well as getting new or renewal of contracts. Adobe Connect, Amazon, Cisco Systems' WebEx division, Google and Microsoft Skype are some of LogMeIn's major competitors. The company's audio services compete with products from AT&T, BT, Intercall, PGi, RingCentral, Verizon and Vonage. This apart, some of the company's services face competition from similar types of solutions provided by organizations like AgileBits, Apple, BlueJeans Networks, Box, Dashlane, Dropbox, GFI, IBM, KeePass, LivePerson, OKTA, Oracle, Splashtop, TeamViewer and Zoom Video Communications.

- To remain competitive, the company spends significantly on sales & marketing expense, which increased from $88.8 million in 2013 to $383 million in 2018. The company also raised its research & development (R&D) spending in 2018. Although the spending is necessary to generate revenues, stiff competition is likely to hurt its pricing power, putting margins under pressure.

- LogMeIn continues to acquire a large number of companies. While this improves revenue growth opportunities, business mix and profitability, it also adds to integration risks. Moreover, frequent acquisitions are a distraction for management, which could impact organic growth, moving ahead.

Last Earnings Report

LogMeIn Q3 Earnings Surpass Estimates

Quarter Ending	09/2019
Report Date	Oct 24, 2019
Sales Surprise	0.62%
EPS Surprise	2.21%
Quarterly EPS	1.39
Annual EPS (TTM)	5.20

LogMeIn delivered third-quarter 2019 non-GAAP earnings of $1.39 per share, which came ahead of the Zacks Consensus Estimate of $1.36. However, the metric was a penny less than the year-ago quarterly figure.

Meanwhile, the company's non-GAAP revenues for the reported quarter summed $317 million, beating the Zacks Consensus Estimate of $315 million and also growing approximately 2.5% year over year. Strong performance of the company's growth products is a consistent key driver.

Quarter in Detail

Unified Communication and Collaboration (UCC) business dipped 2% year over year to $172 million. However, Jive revenues surged 37% year over year to $37 million. Strong adoption of UCaaS suite is an added positive.

Identity and Access Management revenues rose 13% from the year-ago quarter to $103 million, aided by LastPass, which soared 64% year over year to $22 million.

Customer Engagement and Support business declined 3% on a year-over-year basis to $43 million. Further, slowdown in legacy GoToAssist, GoToAssist Corporate, LogMein Rescue business is a dampener. However, large deal wins for Bold360 AI during the quarter are an upside.

The company's growth products, particularly Jive and LastPass, accounting for 26% of revenues in the third quarter grew 34% year over year.

The company's gross renewal rate across all products was nearly 80%. Excluding Jive, renewal rates for Collaboration were 82% in the quarter under discussion.

Margins

In the third quarter, the company's non-GAAP operating income decreased 5.9% year over year to $93.5 million. Also, operating margin contracted 260 bps to 29.5%.

Adjusted EBITDA was down 5% year over year to $109.3 million. Additionally, adjusted EBITDA margin shrank 270 bps to 34.5%.

Balance Sheet and Other Financial Details

LogMeIn ended the third quarter with cash and cash equivalents of $119.2 million compared with $111.5 million, sequentially.

The company generated $88.05 million of adjusted cash flow from operational activities and $69.6 million of adjusted free cash flow in the quarter under review.

In the third quarter, the company repurchased 628,000 shares worth $45 million and paid out $16 million as dividends.

Guidance

For the fourth quarter of 2019, the company expects revenues in the range of $319-$321 million. Adjusted EBITDA is projected between $110 million and $111 million. While adjusted EBITDA margin is anticipated to be 34.5%.

The company forecasts earnings per share in the band of $1.39-$1.41.

For 2019, revenues are envisioned to be $1.258-$1.260 billion tweaked from $1.258-$1.263 billion predicted earlier. Adverse foreign exchange volatility is likely to have an impact of $3 million.

Adjusted EBITDA is still predicted to be $412-$413 million compared with $409-$413 million projected earlier. Adjusted EBITDA margin is assumed to be 33%.

The company's earnings per share are likely to be in the $5.12-$5.14 bracket, raised from the earlier outlook of $5.05-$5.11.

Recent News

On Dec 19, 2019, LogMeIn announced that it has entered into a definitive agreement to be acquired in a transaction led by affiliates of Francisco Partners and Evergreen Coast Capital for $43 billion.

On Nov 18, 2019, LogMeIn announced its partnership with Bitdefender to power LogMeIn Antivirus (AV), through which it will deliver a antimalware solution designed to protect against viruses, malware and sophisticated online threats.

On Nov 13, 2019, LohMeIn announced that its password management solution, LastPass, will be offered by HP to customers who purchase the new HP Spectre x360 13.

On Oct 23, 2019, LogMeIn launched Bold360 Helpdesk designed to modernize employee support.

On Oct 1, 2019, LogMeIn updated its GoTo portfolio by bringing forward a “completely new experience for GoToMeeting”.

On Sep 10, 2019, LogMeIn announced enhancements to its AI-powered Bold360 suit.

Valuation

Shares of LogMeIn have increased 15.3% in the past six months and 0.1% over the trailing 12-month period. Stocks in the Zacks sub-industry gained 12.4%, while the Zacks Computer & Technology sector rallied 13.7% in the past six months, respectively. Over the past year, while the Zacks sub-industry has increased 31.6%, the sector gained 31.7%.

The S&P 500 Index has risen 9.7% in the past six months and 25.1% in the past year.

The stock is currently trading at 17.1X forward 12-month earnings, which compares to 20.41X for the Zacks sub-industry, 22.32X for the Zacks sector and 18.79X for the S&P 500 index.

Over the past five years, the stock has traded as high as 117.4X and as low as 16.46X with a 5-year median of 32.34X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $90 price target reflects 17.9X forward 12-month earnings.

The table below shows summary valuation data for LOGM

Valuation Multiples - LOGM

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	17.1	20.41	22.32	18.79
	5-Year High	117.4	26.64	22.32	19.34
	5-Year Low	16.46	15.51	16.86	15.17
	5-Year Median	32.34	22.44	19.24	17.44
P/S F12M	Current	3.28	2.91	3.57	3.47
	5-Year High	13.93	2.91	3.57	3.47
	5-Year Low	2.49	0.89	2.62	2.76
	5-Year Median	4.98	1.35	3.16	3.15
EV/SalesTTM	Current	3.59	2.23	4.19	3.23
	5-Year High	13.76	2.26	4.2	3.3
	5-Year Low	2.76	1.21	3.05	2.46
	5-Year Median	5.15	1.6	3.73	2.95

As of 01/06/2020

Industry Analysis **Zacks Industry Rank:** Top 7% (18 out of 254)

Top Peers

Adobe Systems Incorporated **(ADBE)**	Neutral
Amazon.com, Inc. **(AMZN)**	Neutral
Cisco Systems, Inc. **(CSCO)**	Neutral
Alphabet Inc. **(GOOGL)**	Neutral
Microsoft Corporation **(MSFT)**	Neutral
Oracle Corporation **(ORCL)**	Neutral
Ringcentral, Inc. **(RNG)**	Neutral
Verizon Communications Inc. **(VZ)**	Neutral

Industry Comparison Industry: Computer - Services

Industry Peers

	LOGM Neutral	X Industry	S&P 500	ADBE Neutral	AMZN Neutral	MSFT Neutral
VGM Score	B	-	-	D	C	C
Market Cap	4.29 B	1.11 B	23.72 B	161.54 B	943.44 B	1,213.21 B
# of Analysts	7	3	13	13	13	14
Dividend Yield	1.51%	0.00%	1.79%	0.00%	0.00%	1.28%
Value Score	C	-	-	D	D	F
Cash/Price	0.03	0.15	0.04	0.03	0.05	0.11
EV/EBITDA	11.49	12.20	13.90	49.03	32.92	19.80
PEG Ratio	1.37	2.20	2.00	2.10	2.64	2.50
Price/Book (P/B)	1.54	2.74	3.34	15.34	16.70	11.44
Price/Cash Flow (P/CF)	8.16	15.83	13.67	47.47	36.78	25.03
P/E (F1)	17.12	21.12	18.72	34.07	72.55	29.72
Price/Sales (P/S)	3.44	1.53	2.66	14.46	3.55	9.35
Earnings Yield	5.83%	4.74%	5.31%	2.93%	1.38%	3.36%
Debt/Equity	0.11	0.33	0.72	0.09	0.40	0.69
Cash Flow ($/share)	10.55	2.63	6.94	7.03	51.74	6.35
Growth Score	C	-	-	B	A	B
Hist. EPS Growth (3-5 yrs)	65.77%	8.17%	10.56%	52.77%	116.18%	16.25%
Proj. EPS Growth (F1/F0)	-2.09%	17.78%	7.42%	24.45%	27.90%	12.66%
Curr. Cash Flow Growth	37.06%	19.08%	14.83%	9.54%	85.21%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	127.07%	5.12%	9.00%	37.38%	48.43%	11.99%
Current Ratio	0.47	1.54	1.23	0.79	1.10	2.85
Debt/Capital	9.50%	24.36%	42.92%	8.59%	28.45%	40.81%
Net Margin	1.20%	3.50%	11.08%	26.42%	4.27%	31.66%
Return on Equity	7.37%	6.97%	17.16%	31.47%	22.52%	39.14%
Sales/Assets	0.32	0.90	0.55	0.56	1.45	0.48
Proj. Sales Growth (F1/F0)	4.45%	6.09%	4.15%	17.68%	18.55%	11.39%
Momentum Score	A	-	-	D	F	A
Daily Price Chg	0.58%	0.00%	0.10%	0.57%	1.49%	0.26%
1 Week Price Chg	-0.54%	0.23%	-0.30%	0.31%	0.28%	-0.21%
4 Week Price Chg	16.02%	0.13%	2.33%	8.68%	8.77%	5.07%
12 Week Price Chg	23.02%	11.86%	7.02%	20.14%	9.59%	13.96%
52 Week Price Chg	3.04%	1.52%	24.61%	45.56%	16.78%	55.82%
20 Day Average Volume	1,208,269	68,239	1,589,897	2,210,797	3,089,689	19,797,846
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.26%	0.00%	0.00%	-0.53%	-1.02%	-0.01%
(F1) EPS Est 12 week change	2.68%	2.15%	-0.56%	0.14%	-18.91%	2.15%
(Q1) EPS Est Mthly Chg	0.27%	0.00%	0.00%	0.00%	-2.70%	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	C
Growth Score	C
Momentum Score	A
VGM Score	B

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.

Disclosures

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