

VeriSign Inc. (VRSN)

\$208.88 (As of 01/09/20)

Price Target (6-12 Months): **\$219.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: B

Summary

VeriSign is benefiting from growth in .com and .net domain name registrations. Also, the renewal of the .com contract and price hikes for the .com and .net domain names bode well for the near term. Per the amended cooperative agreement between the company and the U.S. Commerce Department, VeriSign has the flexibility to pursue up to a 7% increase in prices for .com domain names in each of the last four years of the six-year period of the registry agreement with ICANN. However, rising research & development expenses may prove to be a drag on profitability in the near term. Moreover, intensifying competition from the likes of Google's free public domain name service is a concern. Notably, VeriSign shares have underperformed the industry in a year's time.

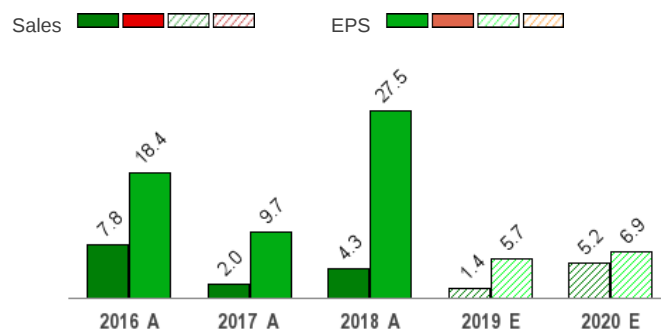
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$221.78 - \$153.52
20 Day Average Volume (sh)	529,813
Market Cap	\$24.5 B
YTD Price Change	8.4%
Beta	1.01
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software and Services
Zacks Industry Rank	Top 26% (66 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.8%
Last Sales Surprise	0.0%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	02/06/2020
Earnings ESP	0.0%
P/E TTM	37.4
P/E F1	36.7
PEG F1	NA
P/S TTM	20.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	317 E	320 E	323 E	329 E	1,296 E
2019	306 A	306 A	308 A	310 E	1,232 E
2018	299 A	302 A	306 A	307 A	1,215 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.40 E	\$1.45 E	\$1.48 E	\$1.52 E	\$5.71 E
2019	\$1.31 A	\$1.33 A	\$1.36 A	\$1.34 E	\$5.34 E
2018	\$1.07 A	\$1.18 A	\$1.23 A	\$1.58 A	\$5.05 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 01/09/2020. The reports text is as of 01/10/2020.

Overview

Based in Reston, VA, VeriSign Inc. provides Internet infrastructure services that include domain name registry services and infrastructure assurance services. Its only reportable segment includes Registry Services. The company reported revenues of \$1.21 billion in 2018.

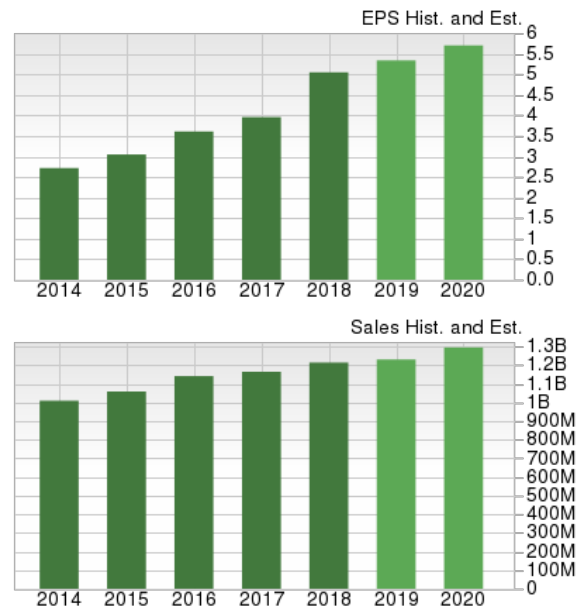
Registry services operate the .com, .net, .cc, .tv, .gov, .jobs, .edu and .name domain name directories. With respect to the .com, .net and .name domains, the company has agreements with The Internet Corporation for Assigned Names and Numbers (ICANN) that makes it the exclusive registrar of these domain names. The company has an agreement with the U.S. Department of Commerce with respect to the .com domain.

Other agreements make it the exclusive registry for the .tv and .cc country code top-level domains (ccTLDs) and the provider of back-end systems for all .gov, .jobs and .edu domain names. It also provides internationalized domain name (IDN) services for websites in local languages. Verisign's gTLDs and ccTLDs can support standards-compliant registrations in more than 100 different native languages and scripts.

The company's operations infrastructure consists of three secure data centers in Dulles, VA; New Castle, DE; and Fribourg, Switzerland as well as more than 160 resolution sites around the world.

Domain names can be registered for between one and 10 years. The .com and .net fees are charged as per agreement terms with ICANN and based on prior approval. The .name fees are charged as per terms of agreement with ICANN, while the .gov registry fees are based on the terms of agreement with the U.S. General Services Administration (GSA).

On Dec 5, 2018, Verisign completed the sale of its rights, economic benefits and obligations in all customer contracts related to the Security Services business, which primarily consisted of Distributed Denial of Service (DDoS) Protection Services and Managed Domain Name System (DNS) Services, to NeuStar, Inc.



Reasons To Buy:

- ▲ The renewal of the .com contract and price hikes for the .com and .net domain names remain drivers of VeriSign's top-line growth. An expected increase in domain name base is the key catalyst. The company is expected to benefit from growing Internet consumption globally. Per Amendment 35 to the Cooperative Agreement between VeriSign and the U.S. Department of Commerce (DOC), signed on Oct 26, 2018, the company can now pursue with ICANN a price increase of up to 7% for .com domain names, in each of the last four years of six-year period of the Registry Agreement.
- ▲ The introduction and expansion of TLDs is an adjacent growth opportunity. The company has been a part of ICANN's new gTLD program by applying for Internationalized Domain Names (IDN) for .com and .net, which will expand the company's business significantly. Additionally, international expansion through IDNs will increase VeriSign's penetration into the growing APAC markets. Furthermore, the company will be offering a few IDNs as standalone domain names, giving more flexibility to users and that too without the need for obtaining approval from ICANN. The company has already rolled out IDNs in Japan and is now gearing up to make the service available for Korea as well. This apart, the company has also entered into an agreement for the .web TLD which will open more avenues for growth in VeriSign's registry business.
- ▲ VeriSign has been utilizing its robust cash flows to return value to investors through share buybacks. The company repurchased 1 million shares for an aggregate cost of \$194.0 million in the third quarter.

The key positives for VeriSign are renewal of the .com contract and price hikes for the .com and .net domain names.

Reasons To Sell:

- ▼ Under the agreement with ICANN, VeriSign is subject to certain restrictions in the operation of .com on pricing, bundling and use of registrars. However, these restrictions do not apply to ccTLDs and the new IDNs. The introduction of new IDN TLDs and gTLDs by ICANN will also intensify competition. An increase in domain name availability in the marketplace while introducing new choices for end-users could also contribute to their confusion around brand preference, which, in turn, could have an adverse effect on the company's business. Moreover, the new gTLDs are yet to gain much traction in Japan and Korea adding to the concerns.
- ▼ Another significant headwind for VeriSign is the soft growth in the active domain name business for .com and .net TLDs. While new domain name registration has witnessed an uptrend over the past year, overall renewal rate for domains have been softening, especially for first-time renewals. The company has cited search algorithm changes and macroeconomic headwinds in some key regions (like China) as the primary factors behind these declines. Google's free public domain name service is also a major competitor.
- ▼ We note that VeriSign currently has a trailing 12-month P/S ratio of 18.43, which compares unfavorably with that of the Zacks industry. The ratio is higher than the median of 18.31 and is closer to the high end of the valuation range over this period. Hence, valuation looks slightly stretched from a P/S perspective.

VeriSign can be affected by soft growth in the active domain name business for .com and .net TLDs.

Last Earnings Report

VeriSign Q3 Earnings & Revenues Top Estimates, Up Y/Y

VeriSign reported third-quarter 2019 non-GAAP earnings of \$1.36 per share that beat the Zacks Consensus Estimate by a nickel and increased 10.6% from the year-ago quarter.

Revenues increased 0.9% year over year to \$308.4 million and came ahead of the Zacks Consensus Estimate of \$308.3 million.

Quarter Details

VeriSign ended the reported quarter with 157.4 million .com and .net domain name registrations, up 3.8% year over year. The figure reflects a net increase of 1.27 million registrations during the quarter.

The company processed 9.9 million new domain name registrations for .com and .net compared with 9.5 million in the year-ago quarter.

Notably, renewal rates are not fully measurable until 45 days after the end of the quarter. The final .com and .net renewal rate for the second quarter of 2019 was 74.2% compared with 75% for the same quarter in 2018.

The company expects the renewal rate for third-quarter of 2019 to come around 73.6%. Renewal rate in the third quarter of 2018 was 74.8%.

VeriSign's operating expenses decreased 7.2% from the year-ago quarter to \$103 million attributed to lower expenses resulting from the sale of the company's security services business to Neustar in October 2018.

VeriSign's research and development expenses (4.7% of total revenues) increased 6.6% from the year-ago quarter to \$14.6 million.

General and administrative expenses (11% of total revenues) decreased 3% year over year to \$33.9 million.

Notably, sales and marketing expenses (3.2% of total revenues) declined 28.9% year over year to \$9.9 million primarily due to sale of security services division, which incurred the majority of sales and marketing expenses.

Non-GAAP operating income was \$218.2 million, up 3.9% from the year-ago quarter. Non-GAAP operating margin expanded 200 basis points (bps) year over year to 70.8%.

Balance Sheet & Cash Flow

As of Sep 30, 2019, the company's cash and cash equivalents (including marketable securities) were approximately \$1.23 billion compared with \$1.22 billion as of Jun 30, 2019.

Cash flow from operating activities was \$208.1 million in the third quarter compared with \$165 million in the previous quarter.

During the three months ended Sep 30, 2019, Verisign repurchased 1 million shares for an aggregate cost of \$194.0 million.

2019 Guidance

The company expects domain name base growth rate to be between 3.2% and 3.7% compared with the prior guidance of 3% to 4.25%.

Moreover, revenues are expected to be in the range of \$1.228-\$1.233 billion compared with the earlier-guided figure of \$1.225-\$1.235 billion.

Non-GAAP operating margin guidance was narrowed to the range of 69.5-70% from the previous guidance of 68% to 69%.

Capital expenditure is anticipated in the range of \$40-\$50 million compared with the earlier-guided figure of \$45-\$55 million.

Quarter Ending **09/2019**

Report Date	Oct 24, 2019
Sales Surprise	0.03%
EPS Surprise	3.82%
Quarterly EPS	1.36
Annual EPS (TTM)	5.58

Recent News

On Dec 19, VeriSign announced that the second quarter of 2019 closed with 359.8 million domain name registrations across all top-level domains (TLDs), up 5.1 million domain name registrations, or 1.4% sequentially. Domain name registrations have grown by 17.4 million, or 5.1% year over year.

On Aug 29, 2019, VeriSign announced that the second quarter of 2019 closed with 354.7 million domain name registrations across all top-level domains (TLDs), up 2.9 million domain name registrations, or 0.8% sequentially. Domain name registrations have grown by 14.9 million, or 4.4% year over year.

Valuation

VeriSign shares are down 4.5% in the six months period but up 32.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 10.5% and 14.3% in the six months period, respectively. Over the past year, the Zacks sub-industry and sector are up 36.7% and 33%, respectively

The S&P 500 index is up 9.8% in the six months period and 25.2% in the past year.

The stock is currently trading at 36.47X forward 12-month earnings compared with 34.7X for the Zacks sub-industry, 22.73X for the Zacks sector and 18.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.04X and as low as 18.75X, with a 5-year median of 27.04X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$219 price target reflects 38.22X forward 12-month earnings.

The table below shows summary valuation data for VRSN

Valuation Multiples -VRSN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	36.47	34.70	22.73	18.94
	5-Year High	44.04	40.18	22.73	19.34
	5-Year Low	18.75	19.96	16.86	15.17
	5-Year Median	27.04	27.21	19.24	17.44
P/S F12M	Current	18.88	4.75	3.66	3.51
	5-Year High	20.82	4.75	3.66	3.51
	5-Year Low	5.97	1.42	2.30	2.54
	5-Year Median	8.59	3.60	3.01	3.00
EV/Sales TTM	Current	20.42	4.86	4.30	3.28
	5-Year High	21.80	5.48	4.30	3.30
	5-Year Low	5.83	3.24	2.56	2.16
	5-Year Median	8.56	4.20	3.44	2.80

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 26% (66 out of 254)



Top Peers

Donnelley Financial Solutions Inc. (DFIN)	Neutral
Endurance International Group Holdings, Inc. (EIGI)	Neutral
Globant S.A. (GLOB)	Neutral
Momo Inc. (MOMO)	Neutral
Microsoft Corporation (MSFT)	Neutral
Sabre Corporation (SABR)	Neutral
58.com Inc. (WUBA)	Neutral
Vonage Holdings Corp. (VG)	Underperform

Industry Comparison Industry: Internet - Software And Services				Industry Peers		
	VRSN Neutral	X Industry	S&P 500	DFIN Neutral	GOOGL Neutral	MSFT Neutral
VGM Score	D	-	-	A	C	C
Market Cap	24.52 B	1.14 B	23.94 B	350.55 M	979.21 B	1,236.55 B
# of Analysts	2	2	13	2	13	14
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	1.26%
Value Score	F	-	-	A	C	D
Cash/Price	0.05	0.14	0.04	0.09	0.13	0.11
EV/EBITDA	28.45	7.55	13.97	4.03	19.84	20.21
PEG Ratio	NA	4.82	2.03	6.21	1.56	2.54
Price/Book (P/B)	NA	4.08	3.33	1.32	5.03	11.66
Price/Cash Flow (P/CF)	40.75	28.17	13.73	2.92	23.26	25.51
P/E (F1)	36.65	24.93	18.79	7.95	25.96	30.28
Price/Sales (P/S)	19.96	4.22	2.64	0.40	6.32	9.53
Earnings Yield	2.73%	2.73%	5.32%	12.52%	3.85%	3.30%
Debt/Equity	-1.23	0.43	0.72	1.61	0.07	0.69
Cash Flow (\$/share)	5.13	0.69	6.94	3.50	61.03	6.35
Growth Score	C	-	-	C	C	B
Hist. EPS Growth (3-5 yrs)	15.97%	14.45%	10.56%	NA	23.64%	16.25%
Proj. EPS Growth (F1/F0)	6.84%	25.92%	7.49%	20.66%	17.38%	12.68%
Curr. Cash Flow Growth	22.18%	17.05%	14.83%	55.87%	44.22%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	8.86%	16.92%	9.00%	-2.19%	21.13%	11.99%
Current Ratio	1.35	1.78	1.23	1.38	3.78	2.85
Debt/Capital	NA%	30.80%	42.99%	61.62%	6.59%	40.81%
Net Margin	52.60%	-1.32%	11.08%	3.35%	21.04%	31.66%
Return on Equity	-44.38%	-0.06%	17.16%	12.22%	18.34%	39.14%
Sales/Assets	0.65	0.73	0.55	0.92	0.62	0.48
Proj. Sales Growth (F1/F0)	5.22%	8.57%	4.20%	1.05%	18.10%	11.39%
Momentum Score	B	-	-	A	D	A
Daily Price Chg	2.32%	0.50%	0.53%	0.89%	1.05%	1.25%
1 Week Price Chg	3.52%	0.96%	-0.30%	-0.10%	0.51%	-0.21%
4 Week Price Chg	9.95%	8.13%	1.92%	-3.13%	5.29%	5.78%
12 Week Price Chg	11.97%	9.96%	6.54%	-8.50%	13.33%	16.04%
52 Week Price Chg	32.40%	2.84%	22.58%	-33.59%	31.60%	56.46%
20 Day Average Volume	529,813	428,799	1,580,816	241,676	1,296,755	20,350,710
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%
(F1) EPS Est 4 week change	0.58%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.98%	0.41%	-0.50%	21.60%	-2.18%	2.17%
(Q1) EPS Est Mthly Chg	NA%	0.00%	0.00%	0.00%	0.00%	0.07%

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	F
Growth Score	C
Momentum Score	B
VGM Score	D

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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