

VeriSign Inc. (VRSN)

\$165.67 (As of 03/12/20)

Price Target (6-12 Months): **\$174.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/08/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: C

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, increasing expenses may prove to be a drag on profitability. Intensifying competition from the likes of Google's free public domain name service is also a concern. Notably, its shares have underperformed the industry on a year-to-date basis.

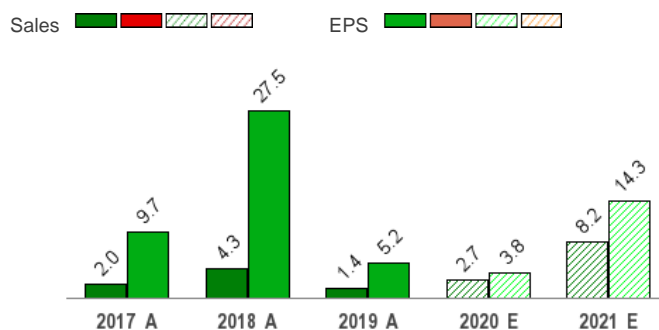
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$221.78 - \$159.77
20 Day Average Volume (sh)	810,910
Market Cap	\$19.3 B
YTD Price Change	-14.0%
Beta	0.94
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software and Services
Zacks Industry Rank	Top 23% (57 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.2%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	0.4%
Expected Report Date	04/23/2020
Earnings ESP	-1.1%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	335 E	342 E	350 E	358 E	1,369 E
2020	313 E	314 E	317 E	321 E	1,265 E
2019	306 A	306 A	308 A	311 A	1,232 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.56 E	\$1.64 E	\$1.73 E	\$1.74 E	\$6.30 E
2020	\$1.34 E	\$1.37 E	\$1.41 E	\$1.40 E	\$5.51 E
2019	\$1.31 A	\$1.33 A	\$1.36 A	\$1.31 A	\$5.31 A

*Quarterly figures may not add up to annual.

P/E TTM	31.2
P/E F1	30.1
PEG F1	NA
P/S TTM	15.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/12/2020. The reports text is as of 03/13/2020.

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.

VeriSign reported revenues of \$1.232 billion in 2019. U.S. customers contributed 63% of total revenues, while 37% came from foreign customers.

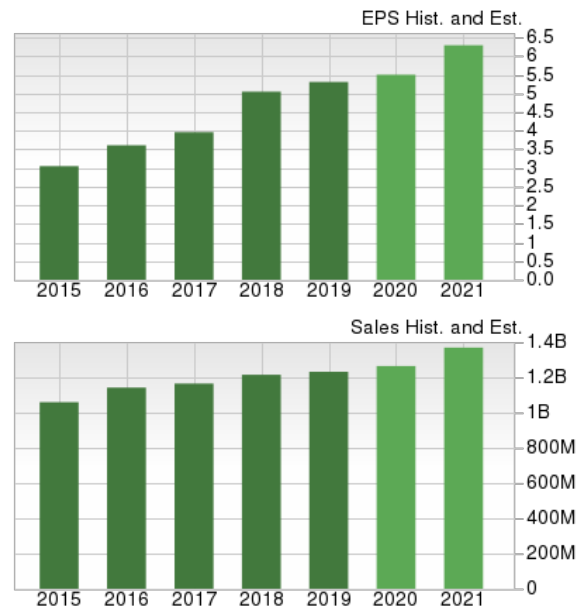
Registry services operate the .com, .net, .cc, .tv, .gov, .jobs, .edu and .name domain name directories. With respect to the .com, .net and .name domains, the company has agreements with The Internet Corporation for Assigned Names and Numbers (ICANN) that makes it the exclusive registrar of these domain 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's balance sheet strength and solid cash flow generation ability make it an attractive stock for investors. As of Dec 31, 2019, the company's cash and cash equivalents (including marketable securities) were approximately \$1.22 billion. Moreover, the company generated cash flow of \$754 million from operations for 2019 compared with \$698 million for 2018. Free cash was \$714 million in 2019 compared with \$660.8 million in 2018.
- ▲ VeriSign has been utilizing its robust cash flows to return value to investors through share buybacks. The company repurchased 3.9 million shares for an aggregate cost of \$738 million in 2019. VeriSign has \$1 billion available under its current share repurchase program.

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 19.59, which compares unfavorably with that of the Zacks industry. The ratio is higher than the median of 18.64 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's Q4 Earnings Lag Estimates, Revenues Up Y/Y

VeriSign reported fourth-quarter 2019 non-GAAP earnings of \$1.31 per share that missed the Zacks Consensus Estimate by 2.2% and decreased 17.1% from the year-ago quarter.

Revenues increased 1% year over year to \$310.5 million and beat the Zacks Consensus Estimate by 0.1%.

Quarter Details

VeriSign ended the reported quarter with 158.8 million .com and .net domain name registrations, up 3.9% year over year.

The company processed 10.3 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 third quarter of 2019 was 73.7% compared with 74.8% in the year-ago quarter.

The company expects the renewal rate for fourth-quarter 2019 to be 73.7%. The renewal rate in the fourth quarter of 2018 was 74.3%.

VeriSign's research and development (R&D) expenses rose 0.4% from the year-ago quarter to \$15.1 million. As a percentage of revenues, R&D expenses stayed at 4.9% on a year-over-year basis.

General and administrative (G&A) expenses grew 11.1% year over year to \$36.6 million. As a percentage of revenues, G&A expenses increased 110 basis points (bps) year over year to 11.8%.

However, sales and marketing expenses (S&M) declined 19.3% year over year to \$13.9 million. As a percentage of revenues, S&M expenses decreased 110 bps year over year to 4.5%.

Non-GAAP operating income was \$211 million, up 2.9% from the year-ago quarter. Non-GAAP operating margin expanded 120 bps year over year to 67.9%.

Balance Sheet & Cash Flow

As of Dec 31, 2019, the company's cash and cash equivalents (including marketable securities) were approximately \$1.22 billion compared with \$1.23 billion as of Sep 30.

Cash flow from operating activities was \$194 million in the fourth quarter compared with \$208.1 million in the previous quarter. Free cash flow was \$185 million in the reported quarter.

In the fourth quarter, Verisign repurchased 1 million shares for an aggregate cost of \$195 million.

Effective Feb 6, 2020, the company's board of directors approved an additional share repurchase authorization of roughly \$743 million of common stock, which brings the total amount available for buybacks to \$1 billion.

2020 Guidance

Domain Name Base is expected to increase between 2% and 4% from 2019-end to 2020-end.

Moreover, VeriSign expects full-year revenues between \$1.250 billion and \$1.265 billion. GAAP operating margin is expected in the 64.5-65.5% range.

Capital expenditure is anticipated in the range of \$45-\$55 million.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	0.05%
EPS Surprise	-2.24%
Quarterly EPS	1.31
Annual EPS (TTM)	5.31

Recent News

On Mar 10, VeriSign announced that the fourth quarter of 2019 closed with 362.3 million domain name registrations across all top-level domains (TLDs), up 2.4 million domain name registrations, or 0.7% sequentially. Domain name registrations grew 13.5 million, or 3.9% year over year.

On Jan 3, VeriSign released a proposed agreement with the Internet Corporation for Assigned Names and Numbers (ICANN) to amend the .com Registry Agreement (RA). The new proposed amendment updates the .com registry agreement to reflect certain changes under amendment 35 to the cooperative agreement with the U.S. Department of Commerce, including the pricing changes.

According to the terms of the proposed Letter of Intent, VeriSign will have a one-time commitment to provide \$4 million per year over five years, beginning Jan 1, 2021, for ICANN to support activities to preserve and enhance the security, stability and resiliency of the DNS and the Internet.

Valuation

VeriSign shares are down 12.6% in the past six-month period and 8.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 5.7% and 11.5% in the past six-month period, respectively. Over the past year, while the Zacks sub-industry is up 0.6%, the sector is down 7.4%.

The S&P 500 index is down 8.2% in the six-month period and 3.4% in the past year.

The stock is currently trading at 29.27X forward 12-month earnings compared with 28.96X for the Zacks sub-industry, 16.87X for the Zacks sector and 15.84X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.04X and as low as 20.88X, with a 5-year median of 27.91X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$174 price target reflects 30.74X 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	29.27	28.96	16.87	15.84
	5-Year High	44.04	40.18	22.04	19.34
	5-Year Low	20.88	19.96	16.87	15.18
	5-Year Median	27.91	28.06	19.32	17.42
P/S F12M	Current	15.01	3.76	3.09	2.91
	5-Year High	20.82	4.64	3.58	3.44
	5-Year Low	6.49	1.42	2.30	2.54
	5-Year Median	8.77	3.64	3.07	3.00
EV/Sales TTM	Current	16.26	3.71	3.30	2.48
	5-Year High	21.80	5.48	4.43	3.46
	5-Year Low	6.13	3.21	2.54	2.14
	5-Year Median	8.75	4.18	3.53	2.82

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Top 23% (57 out of 253)



Top Peers

Donnelley Financial Solutions Inc. (DFIN)	Neutral
Endurance International Group Holdings, Inc. (EIGI)	Neutral
Globant S.A. (GLOB)	Neutral
HUYA Inc. Sponsored ADR (HUYA)	Neutral
Momo Inc. (MOMO)	Neutral
Ringcentral, Inc. (RNG)	Neutral
Vonage Holdings Corp. (VG)	Neutral
58.com Inc. (WUBA)	Neutral

Industry Comparison Industry: Internet - Software And Services				Industry Peers		
	VRSN Neutral	X Industry	S&P 500	DFIN Neutral	EIGI Neutral	VG Neutral
VGM Score	D	-	-	A	B	B
Market Cap	19.29 B	582.74 M	17.38 B	179.83 M	317.54 M	1.42 B
# of Analysts	2	2.5	13	2	2	11
Dividend Yield	0.00%	0.00%	2.51%	0.00%	0.00%	0.00%
Value Score	F	-	-	A	A	C
Cash/Price	0.05	0.17	0.05	0.06	0.25	0.01
EV/EBITDA	22.54	5.83	10.90	3.19	6.44	17.11
PEG Ratio	NA	3.26	1.54	NA	NA	6.76
Price/Book (P/B)	NA	2.83	2.35	0.67	1.60	2.50
Price/Cash Flow (P/CF)	30.21	15.12	9.60	1.65	2.74	9.27
P/E (F1)	30.36	21.62	13.98	4.20	86.00	33.81
Price/Sales (P/S)	15.66	3.19	1.89	0.21	0.29	1.19
Earnings Yield	3.33%	3.07%	7.07%	23.81%	1.40%	2.91%
Debt/Equity	-1.20	0.43	0.70	1.32	8.77	0.96
Cash Flow (\$/share)	5.48	0.71	7.01	3.19	0.79	0.63
Growth Score	C	-	-	A	F	A
Hist. EPS Growth (3-5 yrs)	15.97%	15.09%	10.85%	NA	NA	-7.04%
Proj. EPS Growth (F1/F0)	3.67%	24.44%	5.99%	6.84%	127.78%	-9.09%
Curr. Cash Flow Growth	5.10%	-0.55%	6.15%	-8.46%	-29.29%	-6.19%
Hist. Cash Flow Growth (3-5 yrs)	7.09%	21.25%	8.52%	2.19%	-14.75%	6.39%
Current Ratio	1.32	1.90	1.24	1.18	0.47	0.69
Debt/Capital	NA%	30.80%	42.57%	56.85%	89.77%	48.91%
Net Margin	49.71%	-1.38%	11.64%	4.30%	-1.11%	-1.64%
Return on Equity	-41.23%	-2.04%	16.74%	14.87%	-1.53%	8.45%
Sales/Assets	0.65	0.71	0.54	0.91	0.42	0.88
Proj. Sales Growth (F1/F0)	2.69%	2.69%	3.54%	0.24%	-1.39%	1.70%
Momentum Score	C	-	-	A	A	C
Daily Price Chg	-6.94%	-8.08%	-10.03%	-20.58%	-15.35%	-19.45%
1 Week Price Chg	1.19%	-6.68%	-0.67%	-9.08%	-19.03%	-7.03%
4 Week Price Chg	-21.04%	-27.15%	-28.22%	-47.13%	-53.46%	-37.47%
12 Week Price Chg	-12.90%	-21.99%	-25.63%	-53.38%	-51.14%	-22.24%
52 Week Price Chg	-8.69%	-34.24%	-16.72%	-63.52%	-69.02%	-42.46%
20 Day Average Volume	810,910	842,308	3,061,271	318,293	1,007,750	4,294,331
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.39%	-2.25%	-0.32%	15.74%	0.00%	-8.21%
(F1) EPS Est 12 week change	0.78%	-5.31%	-0.65%	15.74%	150.00%	-12.32%
(Q1) EPS Est Mthly Chg	0.79%	-4.52%	-0.62%	-52.17%	0.00%	-44.44%

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	C
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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