

VeriSign Inc. (VRSN)

\$207.30 (As of 08/24/20)

Price Target (6-12 Months): **\$218.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/30/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: D

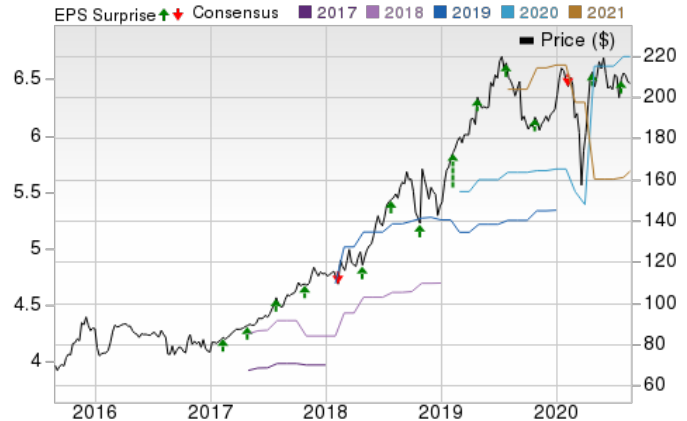
Growth: B

Momentum: F

Summary

VeriSign is benefiting from growth in .com and .net domain-name registrations. It ended the second quarter with 162.1 million .com. and .net domain-name registrations, up 3.8% year over year. Also, the renewal of the .com contract and price hikes for the .com and .net domain names bode well in the long haul. Per the amended cooperative agreement with the U.S. Commerce Department, VeriSign has the flexibility to pursue up to 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, registry-price increases for all of its TLDs, including .com and .net, have been put on the back-burner through the end of 2020 due to the coronavirus outbreak. Stiff competition from ccTLDs and new gTLDs is a concern. Notably, shares have underperformed the industry year to date.

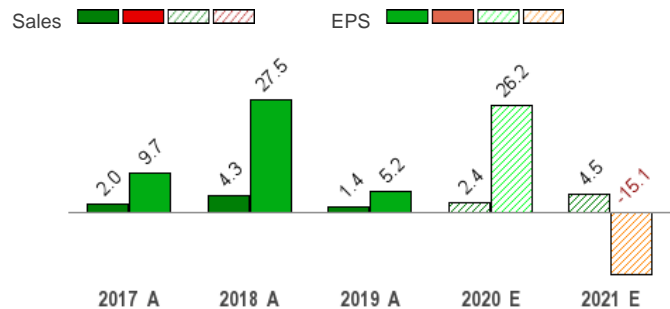
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$221.30 - \$148.77
20 Day Average Volume (sh)	621,060
Market Cap	\$23.8 B
YTD Price Change	7.6%
Beta	0.87
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software and Services
Zacks Industry Rank	Bottom 26% (186 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.5%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/22/2020
Earnings ESP	0.0%
P/E TTM	38.3
P/E F1	30.9
PEG F1	NA
P/S TTM	19.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	322 E	325 E	332 E	339 E	1,319 E
2020	313 A	314 A	316 E	319 E	1,262 E
2019	306 A	306 A	308 A	311 A	1,232 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.41 E	\$1.49 E	\$1.51 E	\$5.69 E
2020	\$1.42 A	\$1.32 A	\$1.26 E	\$1.25 E	\$6.70 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.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/24/2020. The reports text is as of 08/25/2020.

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.

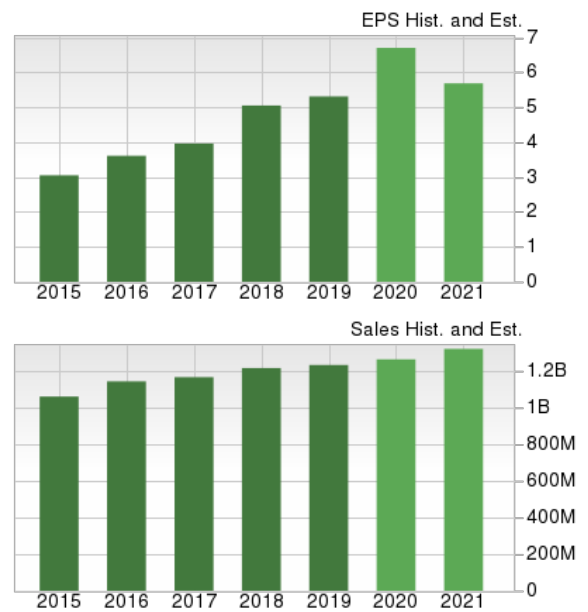
Registry services operate the .com, .net, .cc, .tv, .gov, .jobs, .edu and .name domain name directories. With respect to the .com, .net and .name domains, the company has agreements with The Internet Corporation for Assigned Names and Numbers (ICANN) that makes it the exclusive registrar of these domain 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. On Mar 27, Verisign signed the Third Amendment to the .com Registry Agreement with ICANN, which, among other changes, permits Verisign to increase the price of .com domain name registrations by up to 7% over the previous year, in each of the final four years of each six-year period. The first such six-year period had begun on Oct 26, 2018.
- ▲ 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 solid cash flow generation ability make it an attractive stock for investors. As of Jun 30, 2020, the company's cash and cash equivalents (including marketable securities) were approximately \$1.19 billion compared with \$1.14 billion as of Mar 31, 2020. Moreover, the company generated cash flow of \$395.4 million from operations in the six months ended Jun 30, 2020, compared with \$352.2 million in the same period in 2019. Free cash was \$169 million in the second quarter 2020.
- ▲ VeriSign has been utilizing its robust cash flows to return value to investors through share buybacks. The company repurchased 0.7 million shares for an aggregate cost of \$150 million in second-quarter 2020. VeriSign has \$675.6 million 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.
 - ▼ VeriSign has a leveraged balance sheet. Although the company's net debt was \$598 million as of Jun 30, 2020, lower than \$649 million as of Mar 31, 2020, total debt-to-capital stands at 460.4%, much higher than the industry's 54%. The significant debt burden might hinder growth prospects in the near term.
 - ▼ We note that VeriSign currently has a trailing 12-month P/S ratio of 19.23, which compares unfavorably with that of the Zacks industry. The ratio is higher than the median of 19.13 and is closer to the high end of the valuation range over this period. Hence, its valuation looks slightly stretched from a P/S perspective.
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VeriSign can be affected by soft growth in the active domain name business for .com and .net TLDs.

Last Earnings Report

VeriSign's Q2 Earnings Top Estimates, Revenues Rise Y/Y

VeriSign reported second-quarter 2020 adjusted earnings of \$1.32 per share, which beat the Zacks Consensus Estimate by 6.5% and recorded an increase of the same magnitude year over year.

Revenues increased 2.6% year over year to \$314.4 million and beat the Zacks Consensus Estimate by 0.6%.

Quarter Ending **06/2020**

Report Date	Jul 23, 2020
Sales Surprise	0.62%
EPS Surprise	6.45%
Quarterly EPS	1.32
Annual EPS (TTM)	5.41

Quarter Details

VeriSign ended the reported quarter with 162.1 million .com and .net domain name registrations, up 3.8% year over year.

The company processed 11.1 million new domain name registrations for .com and .net compared with 10.3 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 first quarter of 2020 was 75.4% compared with 75% for the year-ago quarter.

The company expects the renewal rate for second-quarter 2020 to be around 72.8%. The renewal rate in the second quarter of 2019 was 74.2%.

VeriSign's research and development (R&D) expenses rose 21.7% from the year-ago quarter to \$18.2 million. As a percentage of revenues, R&D expenses increased 90 basis points (bps) year over year to 5.8%.

General and administrative (G&A) expenses increased 11.2% year over year to \$36.9 million. As a percentage of revenues, G&A expenses increased 90 bps year over year to 11.7%.

However, sales and marketing expenses (S&M) declined 28.3% year over year to \$8.9 million. As a percentage of revenues, S&M expenses decreased 120 bps year over year to 2.8%.

Operating income was \$206.7 million, up 2.5% from the year-ago quarter. Operating margin contracted 10 bps year over year to 65.8%.

Balance Sheet & Cash Flow

As of Jun 30, 2020, the company's cash and cash equivalents (including marketable securities) were approximately \$1.19 billion compared with \$1.14 billion as of Mar 31, 2020.

Cash flow from operating activities was \$215 million in the second quarter compared with \$180 million in the previous quarter. Free cash flow was \$169 million in the reported quarter.

In the second quarter, Verisign repurchased 0.7 million shares for an aggregate cost of \$150 million, which brings the total amount available for buybacks to \$676 million.

Key Developments in Q2

Verisign announced that it will extend the freeze on registry prices for all its top-level domains, including .com and .net, through Mar 31, 2021.

Additionally, Verisign announced the extension of the waiver of the wholesale restore fee for expired domains through the end of 2020.

2020 Guidance

Domain name base is expected to increase between 2.75% and 4% from 2019-end to 2020-end.

Moreover, VeriSign expects full-year revenues between \$1.255 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.

Recent News

On May 28, VeriSign announced that the first quarter of 2020 closed with 366.8 million domain name registrations across all top-level domains (TLDs), up 4.5 million domain name registrations, or 1.2% sequentially. Domain name registrations grew 14.9 million, or 4.2% year over year.

On Mar 10, VeriSign announced that the fourth quarter of 2019 closed with 362.3 million domain name registrations across all top-level domains, 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 up 7.6% in the year-to-date period and 2.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 34.1% and 23.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 41.8% and 40.9%, respectively.

The S&P 500 Index is up 5.5% in the year-to-date period and 18.3% in the past year.

The stock is currently trading at 34.32X forward 12-month earnings compared with 47.86X for the Zacks sub-industry, 26.8X for the Zacks sector and 22.85X for the S&P 500 index.

Over the past five years, the stock has traded as high as 44.04X and as low as 21.35X, with a 5-year median of 28.83X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$218 price target reflects 36.04X 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	34.32	47.86	26.8	22.85
	5-Year High	44.04	47.86	26.8	22.85
	5-Year Low	21.35	19.78	16.72	15.25
	5-Year Median	28.83	28.29	19.60	17.58
P/S F12M	Current	18.33	6.30	4.17	3.71
	5-Year High	20.82	6.32	4.17	3.71
	5-Year Low	6.76	1.46	2.32	2.53
	5-Year Median	9.38	3.74	3.14	3.05
EV/Sales TTM	Current	19.59	6.79	4.86	3.33
	5-Year High	21.80	6.94	4.86	3.46
	5-Year Low	6.47	3.30	2.59	2.14
	5-Year Median	9.31	4.31	3.64	2.88

As of 08/24/2020

Industry Analysis Zacks Industry Rank: Bottom 26% (186 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
58.com Inc. (WUBA)	Outperform	2
Endurance International Group Holdings, Inc. (EIGI)	Neutral	3
Globant S.A. (GLOB)	Neutral	3
HUYA Inc. Sponsored ADR (HUYA)	Neutral	3
Momo Inc. (MOMO)	Neutral	3
Vonage Holdings Corp. (VG)	Neutral	3
Donnelley Financial Solutions Inc. (DFIN)	Underperform	5
Ringcentral, Inc. (RNG)	Underperform	4

Industry Comparison Industry: Internet - Software And Services				Industry Peers		
	VRSN	X Industry	S&P 500	DFIN	EIGI	VG
Zacks Recommendation (Long Term)	Neutral	-	-	Underperform	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	5	3	3
VGM Score	D	-	-	A	B	C
Market Cap	23.81 B	1.21 B	23.81 B	368.06 M	881.02 M	2.74 B
# of Analysts	2	2.5	14	1	1	10
Dividend Yield	0.00%	0.00%	1.64%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	A	C
Cash/Price	0.05	0.19	0.07	0.10	0.17	0.02
EV/EBITDA	27.70	6.87	13.37	4.57	8.09	28.70
PEG Ratio	NA	12.55	3.02	NA	NA	14.79
Price/Book (P/B)	NA	4.46	3.17	1.36	4.29	5.00
Price/Cash Flow (P/CF)	37.80	17.74	12.77	3.41	7.97	17.74
P/E (F1)	30.94	30.53	21.72	7.40	78.25	73.97
Price/Sales (P/S)	19.11	3.99	2.48	0.43	0.80	2.25
Earnings Yield	3.23%	1.39%	4.44%	13.51%	1.28%	1.34%
Debt/Equity	-1.28	0.27	0.76	1.52	8.29	1.01
Cash Flow (\$/share)	5.48	0.83	6.93	3.19	0.79	0.63
Growth Score	B	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	19.03%	17.47%	10.41%	-11.40%	NA	-11.62%
Proj. EPS Growth (F1/F0)	26.18%	-13.60%	-5.05%	25.64%	188.89%	-20.53%
Curr. Cash Flow Growth	5.10%	-0.55%	5.20%	-8.46%	-29.29%	-6.19%
Hist. Cash Flow Growth (3-5 yrs)	7.09%	21.25%	8.50%	2.19%	-14.75%	6.39%
Current Ratio	1.23	2.58	1.33	1.65	0.53	0.83
Debt/Capital	NA%	27.66%	44.50%	60.26%	89.23%	50.30%
Net Margin	63.32%	-0.57%	10.13%	2.85%	1.79%	-2.92%
Return on Equity	-54.86%	-4.30%	14.66%	9.14%	-2.36%	6.18%
Sales/Assets	0.68	0.68	0.51	0.92	0.42	0.91
Proj. Sales Growth (F1/F0)	2.49%	1.18%	-1.45%	-3.43%	-1.18%	3.07%
Momentum Score	F	-	-	B	F	C
Daily Price Chg	0.28%	0.00%	1.32%	2.93%	1.05%	-1.02%
1 Week Price Chg	-0.27%	0.03%	-1.45%	-7.20%	11.42%	-4.85%
4 Week Price Chg	-1.19%	0.92%	3.38%	33.01%	-2.95%	-3.37%
12 Week Price Chg	-5.36%	10.00%	7.69%	29.52%	69.19%	15.15%
52 Week Price Chg	2.12%	8.72%	3.85%	-2.77%	26.21%	-16.08%
20 Day Average Volume	621,060	502,004	1,873,293	329,176	700,147	3,050,832
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	1.00%	-80.42%	-41.67%	-11.70%
(F1) EPS Est 12 week change	1.64%	1.64%	3.40%	-80.42%	141.18%	-10.22%
(Q1) EPS Est Mthly Chg	0.00%	1.15%	0.00%	-77.78%	150.00%	-24.58%

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	D
Growth Score	B
Momentum Score	F
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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