

VeriSign Inc. (VRSN)

\$212.13 (As of 04/24/20)

Price Target (6-12 Months): **\$223.00**

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:B

Value: D

Growth: A

Momentum: B

Summary

Verisign reported impressive first-quarter 2020 results. Both revenues and earnings increased on a year-over-year basis. The top line benefited from growth in .com and .net domain name registrations. VeriSign ended the reported quarter with 160.7 million .com and .net domain name registrations were up 3.8% year over year. 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. Notably, its shares have outperformed the industry on a year-to-date basis. 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 a concern.

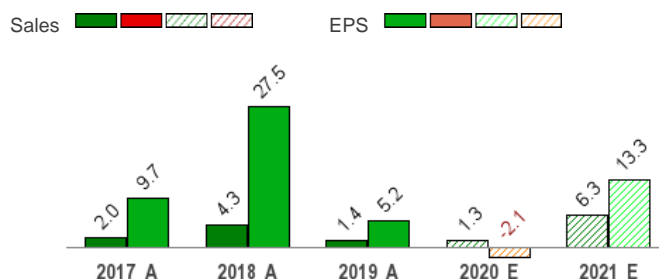
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$221.78 - \$148.77
20 Day Average Volume (sh)	762,588
Market Cap	\$24.6 B
YTD Price Change	10.1%
Beta	0.88
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Software and Services
Zacks Industry Rank	Top 27% (67 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.8%
Last Sales Surprise	1.0%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	NA
Earnings ESP	2.8%
P/E TTM	39.1
P/E F1	40.8
PEG F1	NA
P/S TTM	19.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	321 E	324 E	326 E	328 E	1,326 E
2020	313 A	309 E	312 E	318 E	1,248 E
2019	306 A	306 A	308 A	311 A	1,232 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.40 E	\$1.45 E	\$1.51 E	\$1.49 E	\$5.89 E
2020	\$1.42 A	\$1.28 E	\$1.32 E	\$1.34 E	\$5.20 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 04/24/2020. The reports text is as of 04/27/2020.

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.

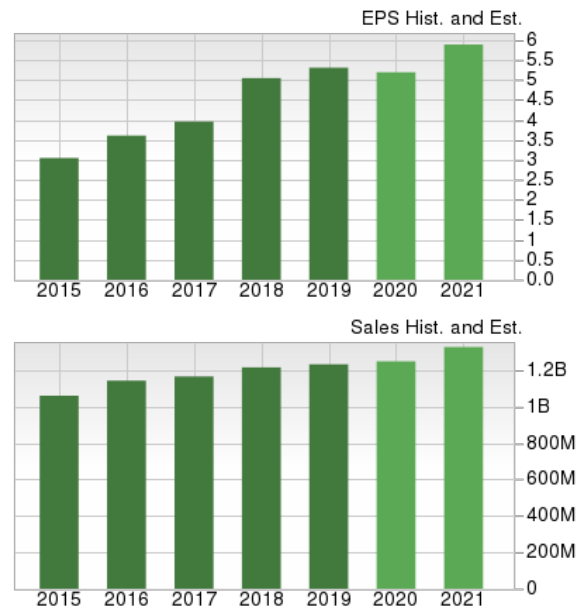
Registry services operate the .com, .net, .cc, .tv, .gov, .jobs, .edu and .name domain name directories. With respect to the .com, .net and .name domains, the company has agreements with The Internet Corporation for Assigned Names and Numbers (ICANN) that makes it the exclusive registrar of these domain 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 balance sheet strength and solid cash flow generation ability make it an attractive stock for investors. As of Mar 31, 2020, the company's cash and cash equivalents (including marketable securities) were approximately \$1.14 billion compared with \$1.22 billion as of Dec 31, 2019.
 - ▲ VeriSign has been utilizing its robust cash flows to return value to investors through share buybacks. 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. The company repurchased 1.3 million shares for an aggregate cost of \$245 million in first-quarter 2020. VeriSign has \$826 million available under its current share repurchase program.
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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 19.02, which compares unfavorably with that of the Zacks industry. The ratio is higher than the median of 18.46 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 Q1 Earnings Top Estimates, Revenues Rise Y/Y

VeriSign reported first-quarter 2020 adjusted earnings of \$1.42 per share, which beat the Zacks Consensus Estimate by 11.8%.

Including income tax benefit worth \$168, which increased earnings by \$1.44, GAAP earnings were \$2.86 per share. The figure jumped 111.9% from the year-ago quarter.

Revenues increased 2% year over year to \$312.5 million and beat the Zacks Consensus Estimate by 1.1%.

Quarter Ending **03/2020**

Report Date	Apr 23, 2020
Sales Surprise	1.03%
EPS Surprise	11.81%
Quarterly EPS	1.42
Annual EPS (TTM)	5.42

Quarter Details

VeriSign ended the reported quarter with 160.7 million .com and .net domain name registrations, up 3.8% year over year.

The company processed 10 million new domain name registrations for .com and .net compared with 9.8 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 73.8% compared with 74.3% in the year-ago quarter.

The company expects the renewal rate for first-quarter 2020 to be around 75.4%. The renewal rate in the first quarter of 2019 was 75%.

VeriSign's research and development (R&D) expenses rose 7.6% from the year-ago quarter to \$17.4 million. As a percentage of revenues, R&D expenses increased 30 basis points (bps) year over year to 5.6%.

General and administrative (G&A) expenses grew 8% year over year to \$36.7 million. As a percentage of revenues, G&A expenses increased 70 bps year over year to 11.8%.

However, sales and marketing expenses (S&M) declined 37.2% year over year to \$6.6 million. As a percentage of revenues, S&M expenses decreased 130 bps year over year to 2.1%.

Operating income was \$206 million, up 3% from the year-ago quarter. Operating margin expanded 60 bps year over year to 66%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, the company's cash and cash equivalents (including marketable securities) were approximately \$1.14 billion compared with \$1.22 billion as of Dec 31.

Cash flow from operating activities was \$180 million in the first quarter compared with \$194 million in the previous quarter. Free cash flow was \$169 million in the reported quarter.

In the first quarter, Verisign repurchased 1.3 million shares for an aggregate cost of \$245 million, which brings the total amount available for buybacks to \$826 million.

Key Developments in Q1

On Mar 27, Verisign entered into 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 began on Oct 26, 2018.

Notably, in view of the coronavirus outbreak, the company announced that it will freeze registry prices for all of its Top-Level Domains (TLDs), including .com and .net, through the end of 2020.

2020 Guidance

Domain Name Base is expected to increase between 2% and 3.75% 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.

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 up 10% in the year-to-date period and 7.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 6.1%, while in the Zacks Computer & Technology sector are down 5.5% in the year-to-date period. Over the past year, the Zacks sub-industry and sector are up 10.2% and 1.2%, respectively.

The S&P 500 index is down 12.1% in the year-to-date period and 4.2% in the past year.

The stock is currently trading at 39.15X forward 12-month earnings compared with 43.27X for the Zacks sub-industry, 21.85X for the Zacks sector and 19.3X for the S&P 500 index.

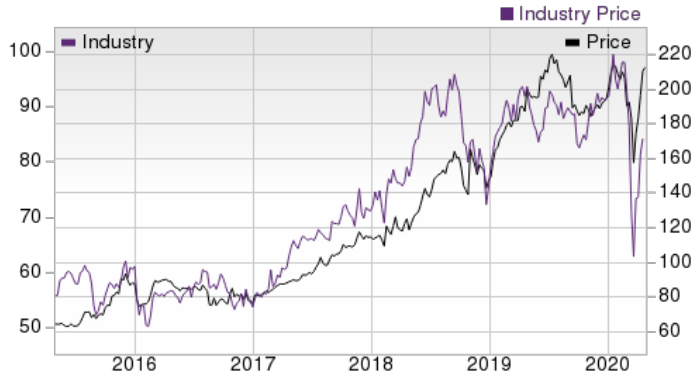
Over the past five years, the stock has traded as high as 44.04X and as low as 20.88X, with a 5-year median of 28.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$223 price target reflects 41.11X forward 12-month earnings.

The table below shows summary valuation data for VRSN

Valuation Multiples -VRSN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	39.15	43.27	21.85	19.83
	5-Year High	44.04	43.27	21.92	19.83
	5-Year Low	20.88	19.85	16.71	15.19
	5-Year Median	28.11	28.31	19.22	17.45
P/S F12M	Current	19.02	8.20	5.09	4.79
	5-Year High	20.82	8.20	5.09	4.79
	5-Year Low	6.49	1.45	2.32	2.54
	5-Year Median	8.92	3.71	3.09	3.01
EV/Sales TTM	Current	20.33	4.81	3.79	2.81
	5-Year High	21.80	5.62	4.44	3.45
	5-Year Low	6.13	3.29	2.58	2.16
	5-Year Median	8.86	4.28	3.57	2.81

As of 04/24/2020

Industry Analysis Zacks Industry Rank: Top 27% (67 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Donnelley Financial Solutions Inc. (DFIN)	Neutral	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
Ringcentral, Inc. (RNG)	Neutral	3
Vonage Holdings Corp. (VG)	Neutral	3
58.com Inc. (WUBA)	Underperform	5

Industry Comparison Industry: Internet - Software And Services				Industry Peers		
	VRSN	X Industry	S&P 500	DFIN	EIGI	VG
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	2	3	3
VGM Score	B	-	-	A	C	B
Market Cap	24.56 B	666.46 M	19.57 B	198.69 M	388.43 M	1.99 B
# of Analysts	2	3	14	2	2	11
Dividend Yield	0.00%	0.00%	2.2%	0.00%	0.00%	0.00%
Value Score	D	-	-	A	A	C
Cash/Price	0.05	0.22	0.05	0.09	0.32	0.01
EV/EBITDA	28.52	6.68	11.66	3.31	6.68	22.16
PEG Ratio	NA	6.51	2.27	NA	NA	11.12
Price/Book (P/B)	NA	2.67	2.60	0.75	1.95	3.50
Price/Cash Flow (P/CF)	38.68	19.56	10.50	1.85	3.35	13.00
P/E (F1)	40.79	34.38	18.25	4.71	105.20	55.61
Price/Sales (P/S)	19.84	2.93	2.02	0.23	0.35	1.67
Earnings Yield	2.45%	2.11%	5.35%	21.22%	1.14%	1.83%
Debt/Equity	-1.20	0.37	0.72	1.32	8.77	0.96
Cash Flow (\$/share)	5.48	0.79	7.01	3.19	0.79	0.63
Growth Score	A	-	-	A	F	B
Hist. EPS Growth (3-5 yrs)	15.97%	15.09%	10.92%	NA	NA	-7.04%
Proj. EPS Growth (F1/F0)	-2.17%	8.52%	-5.06%	6.84%	127.78%	-22.49%
Curr. Cash Flow Growth	5.10%	-8.46%	5.92%	-8.46%	-29.29%	-6.19%
Hist. Cash Flow Growth (3-5 yrs)	7.09%	21.25%	8.55%	2.19%	-14.75%	6.39%
Current Ratio	1.32	1.91	1.23	1.18	0.47	0.69
Debt/Capital	NA%	31.27%	43.90%	56.85%	89.77%	48.91%
Net Margin	63.33%	-1.11%	11.32%	4.30%	-1.11%	-1.64%
Return on Equity	-53.85%	-1.53%	16.60%	14.87%	-1.53%	8.45%
Sales/Assets	0.66	0.73	0.55	0.91	0.42	0.88
Proj. Sales Growth (F1/F0)	1.33%	0.39%	-0.78%	0.24%	-1.39%	0.53%
Momentum Score	B	-	-	B	C	C
Daily Price Chg	-0.41%	0.21%	1.38%	0.17%	-0.38%	0.00%
1 Week Price Chg	7.07%	5.95%	0.42%	5.85%	7.14%	-7.45%
4 Week Price Chg	20.60%	9.61%	5.63%	9.89%	29.56%	19.04%
12 Week Price Chg	-0.57%	-10.64%	-20.44%	-36.26%	-43.92%	-7.46%
52 Week Price Chg	12.13%	-23.19%	-13.44%	-61.12%	-57.99%	-14.06%
20 Day Average Volume	762,588	622,807	2,802,273	223,348	816,189	3,891,034
(F1) EPS Est 1 week change	0.00%	0.00%	-0.10%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-6.64%	0.00%	0.00%	-10.50%
(F1) EPS Est 12 week change	-4.45%	-16.90%	-11.78%	15.74%	133.33%	-21.74%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-10.38%	0.00%	NA	-8.00%

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	D
Growth Score	A
Momentum Score	B
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.

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