



# Stamps.com (STMP)

Prepared for FrostGate Capital

Nick Irby



**Current Price: \$199.60**

**Target Price: \$245.00**

**Potential Gain: 22.7%**

## Overview

Stamps.com (NASDAQ: STMP) is a provider of internet postage services. The company allows users to purchase and print electronic stamps that can be directly placed on envelopes, packages, labels, and other documents using household laser and inkjet printers. The company operates in just one segment, its business of internet mailing and shipping services. The company offers postage under its two brand names, PitcureItPostage and PhotoStamps. Stamps.com was founded as StampMaster in 1996, and changed its name to Stamps.com and went public the following year.

## Management

*Ken McBride, Chairman and Chief Executive Officer* – McBride has been with the company since April of 1999, and was named CEO in 2001. Prior to Stamps.com, he was a research analyst for Salomon Smith Barney in the high technology sector.



*Kyle Huebner, President* – Huebner has been with the company since 1999, holding previous positions as Co-President, CFO, Vice President of Marketing, Vice President of Corporate Strategy, and Senior Director of Corporate Strategy.

*Jeff Carberry, Chief Financial Officer* – Carberry has been with the company since 2008, joining as Director of Finance, then Senior Director of Finance, then Vice President of Finance, and was named CFO in August of 2017.

### **Brands and Solutions**

*Stamps.com*: branded solutions are USPS mailing and shipping solutions targeted at eCommerce shippers and high volume mailers

*Endicia (Acquired in 2015)*: branded solutions are USPS mailing and shipping solutions targeted at very high volume shippers (warehouses, fulfillment houses, large retailers, etc.)

- Located in Mountain View, CA
- Strategic investment to gain market share in high-volume/eCommerce shipping businesses
- Brands include Endicia, DymoStamps™, and PictureItPostage™
- Integration into over 250 high volume shipping marketplaces/software

*ShipStation (Acquired in 2014)*: offers web-based shipping solutions targeted at eCommerce customers

- Allows eCommerce merchants to efficiently process and fulfill orders
- Supports over 30 different carriers, covering domestic/international territories (USPS, UPS, FedEx, etc.)
- Over 120 partner organizations (eBay, PayPal, Amazon, etc.)



*ShipWorks (Acquired in 2014)*: Similar to ShipStation, target eCommerce and high volume shippers

- Allows large retailers and fulfillment centers to efficiently process and fulfill orders
- Supports over 15 different carriers, covering domestic/international territories (USPS, UPS, FedEx, etc.)
- Over 100 partner organizations (eBay, PayPal, Amazon, etc.)
- Automation of large volumes of daily orders, integrated operational customization

*ShippingEasy (Acquired in 2016)*: Leading web-based eCommerce shipping solution

- Allows eCommerce merchants to efficiently process and fulfill orders
- Supports 7 different carriers, covering domestic/international territories (USPS, UPS, FedEx, etc.)
- Over 45 partner organizations (eBay, PayPal, Amazon, etc.)
- Efficient product management and management functions/services

### Stamps.com Portfolio of Solutions

					
<b>Year Launched / Acquired</b>	1999	2000 / 2015	2010 / 2014	2001 / 2014	2012 /2016
<b>Parcel Carriers<sup>1</sup></b>	USPS	USPS	Over 30 parcel carriers	Over 15 parcel carriers	Over 5 parcel carriers
<b>Software Solution</b>	Software and Web	Software and Web	Web Only	Software Only	Web Only
<b>Third Party Software Integrations</b>	Over 75	Over 250	Over 120	Over 100	Over 45
<b>Piece Types</b>	Mail, Packages	Mail, Packages	Packages Only	Packages Only	Packages
<b>Customer Targets</b>	SOHO Mailers Enterprise E-Commerce Shippers High Volume Shippers	E-Commerce Shippers High Volume Shippers	E-Commerce Shippers	High Volume Shippers	E-Commerce Shippers

1—Includes fulfillment solutions such as Fulfillment by Amazon, etc.

### Target Customer Segments

Individual Mailers: Single users who primarily mail letters/cards but also send packages

Small Business/Home Office Mailers (“SOHO”): Single home office or small businesses with one or a few employees who are primarily mailers, but also send packages occasionally

Enterprise Mailers: Larger Organizations with distributed office users who primarily mail, but occasionally send packages

eCommerce Shippers: Individuals and businesses that sell online and ship packages

High Volume Shippers: Large production shipping (warehouses/large retailers)

### Service Overview

Customers can print USPS-approved postage anywhere

- Allow customers to print through a website (no software package needed)
  - Prints shipping labels, envelopes, stamps, and other forms
  - First class, priority, express, domestic, international, etc.
  - Nine different mail piece options (packages, flats, postcards, flat rate. Etc.)
- Constantly evolving features for high volume shippers
  - Batch printing: prints hundreds of labels in a single step
  - Integration into over 75 different marketplaces, shopping carts and tools



- Automatically take care of automatic emails regarding customer forms, shipping/tracking, etc.
- Monthly subscription service fee along with per-shipment postage cost

### ***Growth Drivers***

#### *Income Statement*

From 2015-2016, revenue grew from 214M to 364M, then to 469M in 2017. This is backed by new users, with the majority of revenue coming from sales and service revenue. Net income doubled in 2017, up to 150M, from 75M in 2016. In 2015, we saw the company lose 4.2M, this is largely due to a sharp increase in S,G&A expenses related to its 3 acquisitions (ShipStation, ShipWorks, and Endicia), along with other infrastructure investments.

The company's profit margins in the last two years are a testament to their business and industry. High growth, low cost, and sizeable market share. Profit margins in 2016 and 2017 were 20.6% and 32%, respectively.

#### *Balance Sheet*

To start, the company holds no inventory. It is an extremely liquid company, which minimizes risk of default. The company's cash on hand has nearly doubled from 2015, from 73.7M up to approximately 154M in 2017.

Net accounts receivables have increased sharply on a year-to year basis, up to 80.8M in 2017 from 62.8M in 2016.

The company has little debt, and is an equity-heavy company. The debt/capital ratio is 26%, indicating that the company is not a highly leveraged company. This puts the company in a safe position in a macro-environment where interest rates are on the rise.

#### *Cash Flow*

The company has increase cash flow from operations nearly four-fold since 2015, putting the firm in a strong position to fund long-term capital investments.

#### *Amazon Seller Suite through ShippingEasy*

ShippingEasy is the leading provider of cloud-based shipping, inventory management, and marketing solutions for eCommerce sellers. In March, ShippingEasy launched a seller suite for Amazon sellers, offering a bundle of competitive shipping solutions. It is the only legitimate solution for Amazon sellers, as said by ShippingEasy CEO Katie May.

The suite provides the sellers with the best pricing on USPS with multi-carrier support, faster order delivery speeds along with integrated automation, reduced inventory holding costs, fulfillment support, and, above all, a single solution. All of the best features on one platform.

#### *P/E and PEG*



Despite a 29% revenue growth in 2017, the company's P/E is still in line with the market, indicating that there is still room for the company to grow. Remarkably, the company's P/E ratio has gone down since 2015, despite a 219% increase in revenue.

Looking forward, the company has a PEG of 1.03, indicating the stock price is not inflated.

### *Customer Benefits*

The company saves customers' time by offering instant in-home access to 35 international and domestic carriers. Every transaction is completed and available on one easy-to-use interface.

The company saves customers' money offering optimal carriers for a diverse set of needs. The average discount for customers is 10%, 50% for individuals and SOHO customers, respectively.

### *Competitive Advantage*

The company offers a distinct advantage, and has an unmatched market share and advantage over competitors. The company has over 20 million potential customers.

## Stamps.com vs. Competitor Shipping Solutions

	All Stamps.com Solutions	Other PC Postage Solutions	USPS eVS, ePostage
Batch label printing	Yes	No	No
Major high volume features <sup>1</sup>	Over 75	0	0
Parcel carriers supported <sup>2</sup>	Over 40	3	1
USPS mail classes supported <sup>3</sup>	18	9	8
USPS mailpiece types supported <sup>4</sup>	9	5	5
Number of unique integrations with marketplaces, shopping carts, ecommerce tools, shipping software <sup>5</sup>	Over 450	0	0
Upfront cost <sup>6</sup>	\$0	\$0	Significant

### *Financial Analysis*

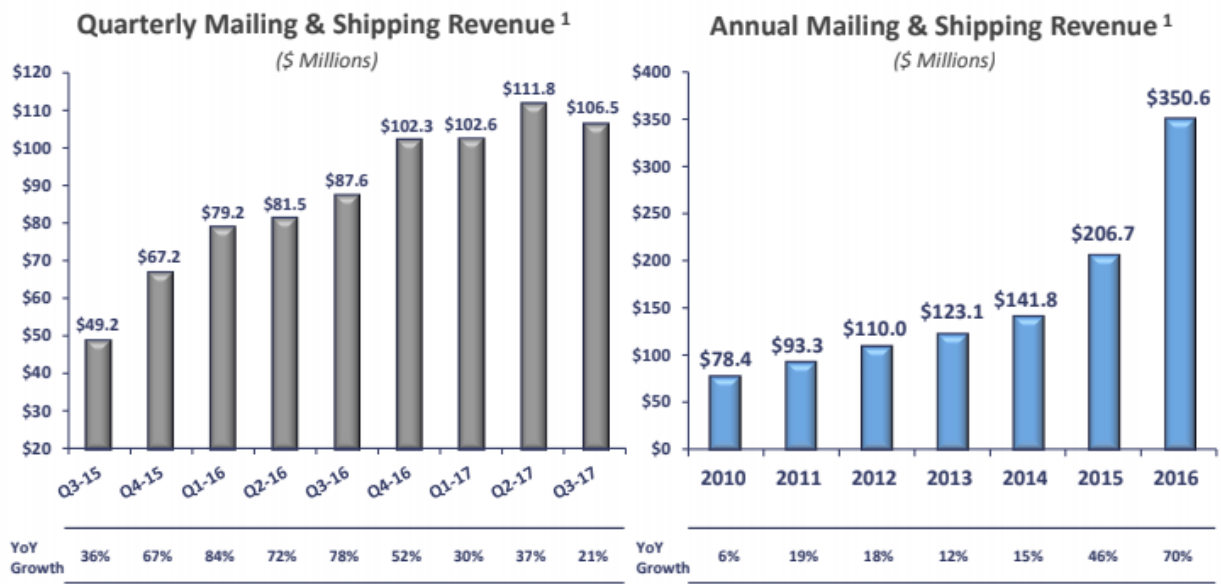
- Mailing and Shipping services follow a recurring revenue model
- Service revenue generated from subscription and transactions
- Low capital expenditure requirements (\$4.1M for TTM period)



In Millions of USD except Per Share	2013 Y	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM
12 Months Ending	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2017
Revenue	127.8	147.3	214.0	364.3	468.7	468.7
Net Income/Net Profit (Losses)	44.2	36.9	-4.2	75.2	150.6	150.6
RSI 14 Day	35.71	38.42	58.26	59.41	71.67	55.66
Price Earnings Ratio (P/E)	15.54	23.08	32.05	19.05	23.83	25.55
PEG Ratio	0.91	1.13	1.41	0.77	1.10	
Cash From Operations	35.8	51.7	46.1	148.0	197.8	197.8
Capital Expenditures	-5.3	-2.9	-2.3	-7.8	-6.8	-6.8
Long Term Debt	0.0	0.0	157.4	141.0	60.6	60.6

## Mailing & Shipping Revenue

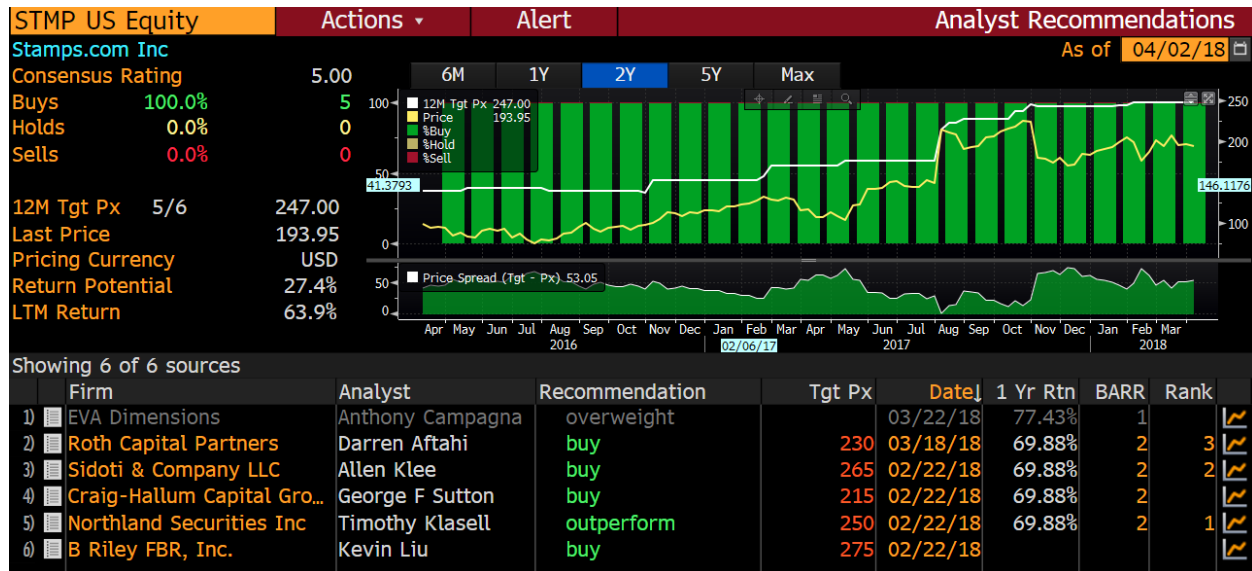
Q3-17 Mailing & Shipping revenue was \$106.5M, up 21% YoY



<sup>1</sup> Mailing & Shipping revenue includes service, store supplies and package insurance revenue from all our mailing and shipping solutions and excludes our customized postage revenue

Price Target: \$245.00 (22.7% upside)

My price target is in line with analyst recommendations. The company returned 64% in the TTM period, and it is reasonable to expect lesser growth than that, but there is still room to grow. They have a competitive RSI of 46.58, and although it is not as low as I would prefer, I believe this is still a good entry point.



Please direct further questions/inquiries regarding this report and STMP to Nick Irby, (978) 602-5050 or [nick@frostgatecapital.com](mailto:nick@frostgatecapital.com)