j2 Global, Inc. (JCOM)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

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<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>105 - 58</td>
<td>Price Target ($) :</td>
<td>85</td>
<td>Q1</td>
<td>1.40A</td>
<td>1.40A</td>
<td></td>
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<tr>
<td>Market Cap (mil):</td>
<td>3,372</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td>10%</td>
<td>Q2</td>
<td>1.58A</td>
<td>1.44E</td>
<td></td>
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<tr>
<td>Shares Out (mil):</td>
<td>47.6</td>
<td>L-Term EPS Gr Rate Est:</td>
<td>10%</td>
<td>Q3</td>
<td>1.70A</td>
<td>1.62E</td>
<td></td>
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<tr>
<td>Float (mil):</td>
<td>45.9</td>
<td>Debt/Cap:</td>
<td>52.6%</td>
<td>Q4</td>
<td>2.38A</td>
<td>2.33E</td>
<td></td>
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<tr>
<td>Avg. Daily Vol (mil):</td>
<td>0.61</td>
<td>ROE:</td>
<td>13.7%</td>
<td>Total</td>
<td>7.06A</td>
<td>6.79E</td>
<td>7.16E</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Yield (%):</td>
<td>0.0</td>
<td></td>
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<table>
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<tr>
<th>Headquartered</th>
<th>IPO/Founded</th>
<th>Dec</th>
<th>2019A</th>
<th>2020E</th>
<th>2021E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Los Angeles, CA</td>
<td>1999/1995</td>
<td>Revenue (Mil)</td>
<td>1,372.1</td>
<td>1,372.9</td>
<td>1,423.9</td>
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<tr>
<td>CEO:</td>
<td>Vivek Shah</td>
<td>% Growth</td>
<td>13.6%</td>
<td>0.1%</td>
<td>3.7%</td>
</tr>
<tr>
<td>CFO:</td>
<td>Scott Turicchi</td>
<td>Operating Margin</td>
<td>36.5%</td>
<td>34.7%</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

Company Description

Founded in 1995 as an internet fax solution, J2 Global has evolved into a VoIP, online backup, email security and customer relationship management provider with a portfolio of digital media assets.

Revenue Profile

Source: Company Data and Baird & Co. Estimates
Competition
JCOM competes against an array of competitors across each of its businesses. Fax competitors include RingCentral, Nextiva, HelloFax and many others. Voice competitors include RingCentral, 8x8, Vonage and many others. Online backup competitors include Carbonite, OpenDrive, iDrive, etc. Digital media competitors include other digital media web sites like CNET, Men's Health, GameSpot, WebMD and a variety of existing and emerging players.

Quick Summary
We rate the stock Outperform based on the following factors:

- **Strong cash flow.** JCOM generated $350.4 million of free cash flow in 2019, with continued strong FCF forecast ahead.
- **Successful diversification.** Digital Media comprised just over 50% of revenue in 2019. The acquisition of Everyday Health diversified the business, adding a health care vertical to the previous properties. The company has also expanded into VPN and gaming in a bigger way.
- **Strong management.** Vivek Shah, current CEO, has been with the company since 2012, formerly the CEO of the digital media business within j2 Global. JCOM's current CFO, Scott Turicchi, has been with the company since 2000.
- **Proven M&A track record.** JCOM has a strong track record of driving accretion through acquisitions and strong returns on invested capital.
- **Fax not going away.** The fax business accounted for 25% of revenue in 2019, with the corporate piece up 5% YOY. Though significant risks exist, we expect the business to remain sticky, aided in part by recurring credit card billing and strength in certain verticals such as health care. We expect fax to continue to be a significant source of free cash flow for the other businesses.

Investment Thesis

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**Proven M&A track record.** JCOM has a strong track record of driving accretion through acquisitions and strong returns on invested capital.

Risks & Caveats

**Acquisition integration.** JCOM relies heavily on acquisitions, and effectively integrating them is key to their success.

**High fax exposure.** JCOM still produces a large part of its revenue and profits from its legacy fax business. With patent protection likely to fall over time, the company could face greater-than-expected fax revenue pressure.

**Significant competition.** JCOM faces significant competition across its cloud business and digital media segments.

**Currency exposure.** With significant assets outside the U.S., JCOM is subject to currency moves.

Supplemental Information
JCOM is currently trading at a 2021E EV/FCF multiple of 9.8x and a 2021E EV/EBITDA multiple of 6.3x, vs. the historical range of 7-10x EBITDA.

Our $85 target price is based on 12x 2021E EV/FCF, which puts it at the low end of its historical range of 11-14x, reflecting slower current growth, including potential COVID-19 impacts.
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May 14, 2020

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