



Stamps.com (NASDAQ: STMP)

Sector: Consumer Discretionary

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$208.90	\$188.74	\$325.13	\$73.14	23.39	\$3.44B	0%	0.6

Industry: Internet and Direct Marketing Retail

Business Description:

Stamps.com is a leading provider of internet based mailing and shipping solutions in the United States and Europe, offering services through the Stamps.com, ShippingEasy, ShipEngine, ShipStation, ShipWorks, Endicia, and MetaPack brands. It offers mailing, multi carrier shipping, consolidation, supplies, branded insurance, back-end integration, and mailing and shipping supplies. It targets small businesses, home offices, larger enterprises, e-commerce merchants, and high-volume shippers. The vast majority of business derives from its mailing and shipping services. It's mailing services allow customers to print USPS approved postage from their offices, along with other advantages like discounts on postage. Its shipping service allows customers to print shipping labels, and offers services such as importing customer orders directly from partners such as Amazon and Shopify, order tracking, automatic optimal delivery, and exclusive UPS and USPS discounts. It charges monthly subscription fees for both these services to small and medium sized businesses, and offers individual pricing plans for enterprise mailers and warehouse shippers.

Industry Trends:

Stamps.com is inherently linked with two industries that are poised to experience rapid growth in the near future. Both the E-Commerce industry and the Global Parcels industry have benefited greatly from the explosion of online shopping and Stamps.com plays a pivotal role in connecting businesses with E-Commerce and shipping companies. With consumers moving their shopping habits increasingly to the internet, the E-Commerce industry has been growing quickly and still has much more room to grow. The E-Commerce industry is projected to record a 20.6% CAGR over the next seven years and is expected to reach a total market value of \$4.5 trillion by 2027. Additionally, the Global Parcels market grew by about 13% from 2018 to 2019, reaching a total value of \$430 Bn. The United States Postal Service, an important carrier partner of Stamps.com, has also seen its annual shipping/package volume double over the last decade from 3.1 Bn to 6.2 Bn. Both of these trends have only accelerated due to the COVID-19 pandemic, which has forced many businesses to move exclusively online in 2020. However, even when lockdown measures are reduced post-pandemic, many of these trends should continue.

Valuation Assumptions:

WACC: 8.4%
 Perpetuity Growth Rate: 3.5%
 Margin of Safety: 10.6%

Report Prepared By:

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Investment Thesis:

Stamps.com has seen business boom during the COVID-19 pandemic, and stands to see future benefit from its effects. Stamps saw a 32.8% increase in paying customers and a 9.9% increase in revenue per customer in the third quarter. These increases were primarily from increased shipping volume, which Stamps can better monetize compared with flat subscription fees. Because of this and e-commerce trends, these new and higher paying customers represent a sustainable source of growth and revenue moving forward. Stamps.com's partnerships with current e-commerce leaders like Amazon and PayPal as well as up and coming leaders like Shopify, position it well to take advantage of the booming e-commerce market as well. Its partnerships with MercadoLibre and Alibaba as well as its Global Advantage Program, which makes international shipping quicker and more convenient, position it to benefit from growing international e-commerce. The company's extremely safe financial position, with zero debt and \$400 million in cash reserves, position it to comfortably make future acquisitions and withstand downturns. Stamps is also trading at an attractive valuation, having dropped significantly in price due to the recent vaccine news. The underlying business has not changed, and given its long and short term outlook, it is now undervalued.

Risks:

The greatest risks facing Stamps.com which may negatively impact its share price include, but are not limited to:

- Growing competition from new businesses who offer similar services
- An inconsistent ability to sustain organic growth without relying on acquisitions
- A possible larger-than-expected decline in E-Commerce after the COVID-19 pandemic
- Slowing global economic growth

Corporate Social Responsibility:

Stamps.com does not have any CSR or ESG initiatives in place at the moment, however its place as a shipping software company limits its risks to the environment and other social issues. It's largest exposure to environmental risks is its partnership with the United States Postal Service and the UPS, who have high environmental concerns due to the nature of the logistics industry. Both of these organizations have CSR initiatives in place in order to curb negative effects on the environment. Some of these initiatives include:

- Reducing facility electric and heating fuel usage
- Switching to vehicles powered by alternative fuel
- Reusable packaging to limit use of disposable materials
- Route optimization to ensure efficient delivery and limit fuel usage

	STMP	Industry
ESG Sustainability:	n/a	14.55
ISS Quality Score	10.0	10.0
CDP Integrated Score	n/a	n/a