



## Obtains ability to increase price for .com domains

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| What were the most noteworthy areas in the results statement? | Verisign's has obtained the ability to increase the price for .com domains with the renegotiation of the Cooperative Agreement with the Department of Commerce, concluded on October 26th. |
| How did the result deviate from expectations?                 | Q3 and 9-month revenues were broadly in-line with estimates. Year-to-date, the EBITDA margin was 170bp above our estimate, driven by expense control.                                      |
| Did the Company change its guidance?                          | Verisign does not provide guidance. Our estimates for 2018E are now 8% higher than they were at the beginning of the year.   |
| Is there an impact on the 2Xideas Investment Case?            | The Investment Case on Verisign is fully confirmed.  |

Verisign reported revenue growth of 4.4% year-over-year for the first 9 months of 2018, a touch above our estimates. The operating margin was 67.7% over the period, which was 170bp above our previous estimate. The higher operating margin and the lower interest expense post the redemption of the convertible bond lead us to increase our EPS estimate by 8% to USD 4.68 for 2018E.

*9-month results a touch above estimates...*

*...leading to an 8% increase in EPS for 2018.*

More significant is the fact that Verisign announced the renewal of the Cooperative Agreement ("CA") with the Department of Commerce. Previously, the price for all .com domains had been set at USD 7.85 p.a. The new CA allows Verisign to increase the price by 7% p.a. in 4 years out of every 6-year period, the first time as of October 2020. This change in regulation will lead to an acceleration in net profit growth from an average of 7–8% to 15% p.a. for the years 2021–2024E. Together with share buybacks, we now estimate EPS growth of 20% p.a. for these 4 years.

*Verisign can now increase .com domain prices by an average of 5% p.a.*

In addition, Verisign obtained the right to operate as a registrar for its .web top-level domain. This vertical integration improves the Company's control over the distribution of .web domains, potentially resulting in superior pricing. We continue to believe that Verisign will start marketing .web domains during Q4 2018.

The current valuation reflects the attractive growth profile, but applying an exit valuation of NTM P/E of 22x to our new EPS estimate still results in a total return of 12% p.a. into 2024E. In conclusion, we fully confirm our Investment Case.

*Investment Case fully confirmed*

| USD                              | Nov 2018 | 2019E | 2023E | 2024E |
|----------------------------------|----------|-------|-------|-------|
| Current share price              | 151.3    |       |       |       |
| Earnings per share               |          | 5.28  | 10.28 | 12.25 |
| Change from previous %           |          | +8%   | +37%  |       |
| Current P/E multiple             |          | 28.7x | 14.7x | 12.4x |
| Exit NTM P/E multiple            |          |       |       | 22.0x |
| Share price Dec 2023E            |          |       |       | 269.5 |
| Share price return %             |          |       |       | 78.1% |
| Accumulated dividends, per share |          |       |       | 0.0   |
| Excess cash, per share           |          |       |       | 0.0   |
| Total return %                   |          |       |       | 78.1% |
| Time Horizon, years              |          |       |       | 5.0   |
| Annualized total return %        |          |       |       | 12.2% |

*2023E EPS estimate up 37% from previous*

*Expected annual total return of 12%*

## Income Statement

Revenue acceleration from 2021E due to .com pricing

| in USD mn                          | FY 2016 | FY 2017 | FY 2018E | FY 2019E | FY 2020E | FY 2021E | FY 2022E | FY 2023E | FY 2024E |
|------------------------------------|---------|---------|----------|----------|----------|----------|----------|----------|----------|
| <b>Total Sales</b>                 | 1,142   | 1,165   | 1,213    | 1,286    | 1,350    | 1,499    | 1,663    | 1,846    | 2,049    |
| <b>Growth %</b>                    | 7.8%    | 2.0%    | 4.1%     | 6.0%     | 5.0%     | 11.0%    | 11.0%    | 11.0%    | 11.0%    |
| COGS                               | -198    | -193    | -195     | -203     | -209     | -217     | -221     | -229     | -244     |
| Gross Profit                       | 944     | 972     | 1,018    | 1,083    | 1,141    | 1,281    | 1,442    | 1,617    | 1,806    |
| <b>GPM %</b>                       | 82.6%   | 83.4%   | 83.9%    | 84.2%    | 84.5%    | 85.5%    | 86.7%    | 87.6%    | 88.1%    |
| Sales and marketing                | -80     | -82     | -62      | -63      | -64      | -65      | -66      | -67      | -68      |
| Research and development           | -59     | -52     | -57      | -58      | -59      | -60      | -61      | -62      | -63      |
| General & administrative           | -118    | -130    | -136     | -139     | -141     | -143     | -144     | -147     | -150     |
| <b>EBITDA</b>                      | 795     | 811     | 868      | 928      | 988      | 1,130    | 1,292    | 1,467    | 1,656    |
| <b>Growth %</b>                    | 11.4%   | 2.0%    | 7.1%     | 6.9%     | 6.4%     | 14.4%    | 14.4%    | 13.6%    | 12.8%    |
| <b>Margin %</b>                    | 69.6%   | 69.6%   | 71.6%    | 72.2%    | 73.1%    | 75.4%    | 77.7%    | 79.5%    | 80.8%    |
| <b>Operating Profit (Non-GAAP)</b> | 737     | 761     | 819      | 881      | 939      | 1,079    | 1,239    | 1,412    | 1,599    |
| <b>Growth %</b>                    | 13.0%   | 3.3%    | 7.7%     | 7.6%     | 6.5%     | 15.0%    | 14.9%    | 14.0%    | 13.2%    |
| <b>Margin %</b>                    | 64.5%   | 65.3%   | 67.5%    | 68.5%    | 69.5%    | 72.0%    | 74.5%    | 76.5%    | 78.0%    |
| Interest expense                   | -116    | -131    | -109     | -100     | -100     | -100     | -100     | -100     | -100     |
| Interest, other non-ops income     | 8       | 18      | 27       | 27       | 27       | 27       | 27       | 27       | 27       |
| Associated Cies                    | 0       | 0       | 0        | 0        | 0        | 0        | 0        | 0        | 0        |
| Income Tax                         | -163    | -166    | -163     | -178     | -190     | -221     | -257     | -295     | -336     |
| <b>Tax Rate %</b>                  | 26.0%   | 25.2%   | 22.1%    | 22.0%    | 22.0%    | 22.0%    | 22.0%    | 22.0%    | 22.0%    |
| <b>Net profit (Non-GAAP)</b>       | 465     | 492     | 574      | 630      | 675      | 785      | 910      | 1,045    | 1,190    |
| <b>Growth %</b>                    | 14.6%   | 5.9%    | 16.7%    | 9.8%     | 7.1%     | 16.2%    | 15.9%    | 14.9%    | 13.9%    |
| <b>Margin %</b>                    | 40.7%   | 42.2%   | 47.3%    | 49.0%    | 50.0%    | 52.4%    | 54.7%    | 56.6%    | 58.1%    |
| NOPAT                              | 546     | 578     | 640      | 699      | 753      | 863      | 988      | 1,123    | 1,268    |

## Balance Sheet

Limited net debt      Operating margins driven by pricing and outstanding cost control

| in USD mn                     | FY 2016 | FY 2017 | FY 2018E | FY 2019E | FY 2020E | FY 2021E | FY 2022E | FY 2023E | FY 2024E |
|-------------------------------|---------|---------|----------|----------|----------|----------|----------|----------|----------|
| Cash & equivalents            | 232     | 466     | 350      | 348      | 341      | 345      | 358      | 375      | 384      |
| Marketable securities         | 1,566   | 1,949   | 949      | 949      | 949      | 949      | 949      | 949      | 949      |
| Total cash & securities       | 1,798   | 2,415   | 1,299    | 1,297    | 1,290    | 1,294    | 1,307    | 1,324    | 1,333    |
| Non-convertible debt          | -1,237  | -1,783  | -1,785   | -1,787   | -1,789   | -1,791   | -1,793   | -1,795   | -1,797   |
| Convertible debt              | -630    | -628    | 0        | -6       | -6       | -6       | -6       | -6       | -6       |
| Total debt                    | -1,867  | -2,410  | -1,785   | -1,792   | -1,794   | -1,796   | -1,798   | -1,800   | -1,802   |
| <b>Net financial position</b> | -69     | 5       | -486     | -495     | -504     | -502     | -491     | -477     | -469     |
| Receivables                   | 13      | 5       | 6        | 7        | 8        | 9        | 10       | 11       | 12       |
| Other current assets          | 31      | 26      | 26       | 27       | 28       | 29       | 30       | 31       | 33       |
| <b>WC assets</b>              | 44      | 31      | 32       | 34       | 36       | 38       | 40       | 42       | 45       |
| <b>Total current assets</b>   | 1,842   | 2,446   | 1,331    | 1,331    | 1,326    | 1,332    | 1,347    | 1,366    | 1,378    |
| PP&E                          | 266     | 264     | 266      | 273      | 279      | 286      | 292      | 299      | 306      |
| Goodwill & intangibles        | 198     | 198     | 198      | 198      | 198      | 198      | 198      | 198      | 198      |
| <b>Total Assets</b>           | 2,335   | 2,941   | 1,829    | 1,835    | 1,837    | 1,849    | 1,871    | 1,896    | 1,916    |
| Trade & other payables        | 19      | 21      | 22       | 23       | 24       | 25       | 26       | 27       | 28       |
| <b>WC liabilities</b>         | 204     | 220     | 226      | 232      | 238      | 244      | 250      | 256      | 262      |
| <b>Net working capital</b>    | -159    | -188    | -194     | -198     | -202     | -206     | -210     | -214     | -217     |
| <b>Shareholders' equity</b>   | -1,201  | -1,260  | -1,824   | -2,009   | -2,197   | -2,477   | -2,796   | -3,165   | -3,598   |
| Invested capital              | 304     | 273     | 270      | 272      | 275      | 277      | 280      | 282      | 287      |
| Invested tang. capital        | 107     | 75      | 72       | 75       | 77       | 80       | 82       | 85       | 89       |

Very capital-light business

Free cash-flow repatriated to shareholders

## Cashflow Statement

| in USD mn              | FY 2016 | FY 2017 | FY 2018E | FY 2019E | FY 2020E | FY 2021E | FY 2022E | FY 2023E | FY 2024E |
|------------------------|---------|---------|----------|----------|----------|----------|----------|----------|----------|
| Operating cash-flow    | 668     | 703     | 721      | 871      | 924      | 1,138    | 1,315    | 1,505    | 1,710    |
| Capex, net             | -27     | -49     | -51      | -53      | -55      | -57      | -59      | -61      | -63      |
| Free cash-flow         | 641     | 653     | 669      | 818      | 868      | 1,081    | 1,255    | 1,444    | 1,646    |
| Acquisitions           | -143    | 0       | 0        | 0        | 0        | 0        | 0        | 0        | 0        |
| Divestitures           | 0       | 12      | 0        | 0        | 0        | 0        | 0        | 0        | 0        |
| Dividends              | 0       | 0       | 0        | 0        | 0        | 0        | 0        | 0        | 0        |
| Iss. / repur. of stock | -662    | -621    | -550     | -837     | -893     | -1,098   | -1,265   | 1,452    | -1,664   |
| Net change in cash     | -125    | 57      | 134      | -2       | -6       | 4        | 13       | 16       | 10       |

## Valuation

Strong EPS acceleration on .com pricing

|  |        | FY 2016  | FY 2017  | FY 2018E | FY 2019E | FY 2020E | FY 2021E | FY 2022E | FY 2023E | FY 2024E |
|--|--------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| Share price                            | USD    | 76.1     | 114.4    | 151.3    | 151.3    | 151.3    | 151.3    | 151.3    | 151.3    | 151.3    |
| Market Capitalisation                  | USD mn | 7,842    | 11,168   | 18,261   | 17,686   | 17,111   | 16,431   | 15,689   | 14,887   | 14,025   |
| Earnings per share, non-GAAP           | USD    | 3.61     | 3.96     | 4.68     | 5.28     | 5.84     | 7.04     | 8.52     | 10.28    | 12.25    |
| Growth %                               |        | 18.4%    | 9.8%     | 18.2%    | 12.8%    | 10.6%    | 20.6%    | 21.0%    | 20.6%    | 19.2%    |
| Dividend per share                     | USD    | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 0.00     | 1.00     |
| Payout ratio %                         |        | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 8.6%     |
| Book value per share                   | USD    | -11.6    | -12.9    | -15.1    | -17.2    | -19.4    | -22.8    | -27.0    | -32.2    | -38.8    |
| Growth %                               |        | NM       | NM       | NM       | NM       | NM       | NM       | NM       | NM       | NM       |
| EV / EBITDA                            |        | 10.0     | 13.8     | 21.6     | 19.6     | 17.8     | 15.0     | 12.5     | 10.5     | 8.8      |
| EV / NOPAT                             |        | 14.5     | 19.3     | 29.3     | 26.0     | 23.4     | 19.6     | 16.4     | 13.7     | 11.4     |
| EV / Sales                             |        | 6.9      | 9.6      | 15.5     | 14.1     | 13.0     | 11.3     | 9.7      | 8.3      | 7.1      |
| P/E                                    |        | 21.1     | 28.9     | 32.3     | 28.7     | 25.9     | 21.5     | 17.8     | 14.7     | 12.4     |
| P/B                                    |        | NM       | NM       | NM       | NM       | NM       | NM       | NM       | NM       | NM       |
| EV / IC                                |        | 26.01    | 40.92    | 69.44    | 66.73    | 64.06    | 61.02    | 57.79    | 54.39    | 50.50    |
| EV / IC (tangible)                     |        | 74.19    | 148.23   | 258.71   | 242.55   | 227.41   | 211.76   | 196.22   | 180.84   | 162.02   |
| RoAIC                                  |        | 211.4%   | 200.5%   | 235.8%   | 257.7%   | 275.0%   | 312.3%   | 354.3%   | 399.2%   | 445.3%   |
| RoAIC (tangible)                       |        | 409.8%   | 635.7%   | 866.3%   | 948.4%   | 987.7%   | 1,096.0% | 1216.2%  | 1341.3%  | 1,454.0% |
| Net Debt / EBITDA                      |        | 0.09 x   | net cash | 0.56 x   | 0.53 x   | 0.51 x   | 0.44 x   | 0.38 x   | 0.32 x   | 0.28 x   |
| Net cash in % of market capitalisation |        | net debt | 0.0%     | net debt | net debt | net debt | net debt | net debt | net debt | net debt |
| Capex / Depreciation                   |        | 45.7%    | 99.2%    | 105.1%   | 113.8%   | 113.3%   | 112.7%   | 112.3%   | 111.8%   | 111.4%   |
| Capex as % of average PP&E             |        | 9.5%     | 18.7%    | 19.5%    | 19.9%    | 20.1%    | 20.4%    | 20.6%    | 20.8%    | 21.0%    |
| Operating cash-flow yield              |        | 8.5%     | 6.3%     | 3.9%     | 4.9%     | 5.4%     | 6.9%     | 8.4%     | 10.1%    | 12.2%    |
| Free cash-flow yield                   |        | 8.2%     | 5.8%     | 3.7%     | 4.6%     | 5.1%     | 6.6%     | 8.0%     | 9.7%     | 11.7%    |
| Unlevered free cash-flow yield on EV   |        | 9.6%     | 6.9%     | 4.2%     | 5.2%     | 5.6%     | 7.1%     | 8.5%     | 10.2%    | 12.3%    |
| Average cash conversion cycle          |        | -8.4     | -6.8     | -7.9     | -7.4     | -6.9     | -6.5     | -6.4     | -6.1     | -5.6     |
| Net working capital in % of sales      |        | neg. NWC | neg. NWC | neg. NWC | neg. NWC | neg. NWC | neg. NWC | neg. NWC | neg. NWC | neg. NWC |
| Dividend yield                         |        | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     | 0.0%     |
| Repurchase yield                       |        | 8.4%     | 5.6%     | 3.0%     | 4.7%     | 5.2%     | 6.7%     | 8.1%     | 9.8%     | 11.9%    |
| Total cash back yield                  |        | 8.4%     | 5.6%     | 3.0%     | 4.7%     | 5.2%     | 6.7%     | 8.1%     | 9.8%     | 11.9%    |

We assume an exit valuation of NTM P/E 22x

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