

A Simple Lesson Stamps.com Teaches About Price vs Value

Written by Jae Jun follow me on Facebook Twitter

June 9, 2015

What You'll Learn

- Stamps.com is up 100% since I wrote about it and whether I was wrong
- A look at what Stamps.com is worth and what it teaches you about price vs value
- An alternative investment to Stamps.com

It's only been 10 months, but it looks like my decision to not buy Stamps.com (STMP) has been a mistake so far.

Here's how Stamps.com reacted after I wrote my last article showing that it was fairly valued.



But first, let me get the cliché out that the market should be viewed long term and over the short term, anything can happen.

However, a 10-30% move within a year can be viewed as normal market movements, but 118%?

There has to be something I missed right?

Here's the link to the [previous article on Stamps.com](#) that details all the numbers.

I'll be going over some of these numbers and thoughts from back then to see whether there are obvious mistakes with the benefit of hindsight and see if I can do a better job for the future.

It's easy to look at your winners, but it's also important to remain objective, unemotional or biased

and look to see whether there are mistakes that you can fix.

Looking Back for Clues to Improve My Process

Here's what I started out with last time around. If you want to know what the business does, [refer to the past article](#).

- Fast growing small company – check
- Huge margins – check
- Cash machine – check
- No debt and healthy balance sheet – check

The difference now is that with the recent acquisition of Endica, Stamps.com will have debt showing on its balance sheet in the next quarterly report.

However, the acquisition is excellent and it only strengthens its position in the postage labeling business.

Ecommerce is thriving, more and more sellers are getting on eBay (NASDAQ: [EBAY](#)) and Amazon (NASDAQ: [AMZN](#)) to sell products or opening up their own stores.

Wix.com (WIX) and [Shopify](#) also make it so easy to open up a store in less than an hour.

In fact, there has been a huge explosion in past few years as more and more people get on the retail arbitrage bandwagon or sourcing products from Alibaba (NYSE: [BABA](#)) and then selling it on Amazon.

Just check for yourself the number of [ebooks published on retail arbitrage and DIY selling on Amazon](#). It's a multi billion dollar industry.

Stamps.com's business model is still great and the risk of USPS continually going downhill still exists which is why the acquisition of Endicia is a great move.

It shows that management is aware of what's happening and what their risks are.

The downside is that the acquisition looks expensive at about 3x.

The SAAS model of Stamps.com is scalable and generates a ton of FCF.

Their acquisition of ShipStation before Endicia has certainly helped as FCF in the TTM is \$48.5m.

- 2012 FCF: \$0.8m

- 2013 FCF: \$30.5m
- 2014 FCF: \$48.9m
- TTM FCF: \$48.5 (only Q1 completed so far)

So Where Did I Go Wrong?

Looking back at my notes, it looks like I underestimated managements ability to make good decisions.

I was too afraid of the USPS risk and how it could affect business.

I underestimated the growth estimates in the valuation.

But although the price has proven me wrong so far, the valuation is far too rich at this point.

Here's why.

Updated Valuations

- The current TTM EV/EBIT sits at 75x
- In 2014, the EV/EBIT was 30x
- The current TTM P/FCF is 23.8x
- In 2014, the P/FCF was 15.6x
- The current TTM P/S is 7.3x
- In 2014, the P/S was 5.2x

Here is a look at the 5 year median values with the [OSV Analyzer](#) to give you a better idea of what range I'm talking about.

Stamps.com Inc. (STMP) June 9, 2015

Enter Ticker Refresh Save as PDF

old school value

If 2014 numbers are considered "fair value" then TTM is overvalued

	2011	2012	2013	2014	TTM	5YR Min	Median	5YR Max
Financial Statistics & Ratios								
Valuation Ratios								
P/E	14.91	11.18	15.67	20.67	40.37	11.18	18.17	40.37
P/E (cash adjusted)	12.79	10.25	14.01	19.40	37.83	10.25	16.70	37.83
EV/EBITDA	18.53	15.35	16.88	25.11	53.59	15.35	21.77	66.57
EV/EBIT	19.49	16.39	18.14	30.09	75.60	16.39	24.79	107.19
P/S	3.85	3.73	5.41	5.19	7.29	2.07	4.52	7.29
P/BV	4.16	3.82	4.03	3.73	5.25	3.73	4.02	5.25
P/Tang BV	4.16	3.82	4.05	6.44	8.60	3.82	4.11	8.60
P/CF	14.29	5.46	13.76	18.78	36.38	5.46	15.71	36.38
P/FCF	27.98	533.89	22.71	15.63	23.77	15.63	25.88	533.89
FCF/S	13.8%	0.7%	23.8%	33.2%	30.7%	0.7%	18.8%	33.2%
FCF Yield	3.6%	0.2%	4.4%	6.4%	4.2%	0.2%	3.9%	6.4%

Cant Deny Overvalued Valuation Ratios for STMP | Enlarge

Compare these numbers to its competitor Pitney Bowes (PBI).

Pitney Bowes Inc. (PBI) June 9, 2015

Enter Ticker Refresh Save as PDF

old school value

Much better valued competitor

	2011	2012	2013	2014	TTM	5YR Min	Median	5YR Max
Financial Statistics & Ratios								
Valuation Ratios								
P/E	5.06	4.64	32.05	14.45	11.98	4.64	12.39	32.05
P/E (cash adjusted)	3.65	2.50	25.44	11.13	9.50	2.50	10.27	25.44
EV/EBITDA	8.23	6.27	9.42	9.51	11.27	6.27	8.83	11.27
EV/EBIT	12.09	8.85	13.20	12.83	15.03	8.85	12.46	15.03
P/S	0.76	0.54	1.20	1.27	1.17	0.54	0.96	1.27
P/BV	-80.20	18.65	22.19	62.58	80.32	-80.20	20.42	80.32
P/Tang BV	-1.30	-0.94	-2.76	-2.88	-2.67	-2.88	-2.03	-0.94
P/CF	4.57	3.33	8.61	8.75	8.10	3.33	7.89	8.75
P/FCF	3.94	4.27	9.34	10.18	9.60	3.94	6.91	10.18
FCF/S	19.2%	12.6%	12.9%	12.4%	12.2%	12.2%	12.8%	19.2%
FCF Yield	25.4%	23.4%	10.7%	9.8%	10.4%	9.8%	16.5%	25.4%
Magic Formula Earnings Yield	8.3%	11.3%	7.6%	7.8%	6.7%	6.7%	8.0%	11.3%
ROE	-1583.9%	402.4%	69.6%	432.0%	673.0%	-1583.9%	236.0%	673.0%
ROA	7.6%	5.7%	2.1%	5.1%	6.1%	2.1%	5.4%	7.6%
ROIC	11.4%	10.7%	11.8%	11.5%	7.6%	7.6%	11.0%	11.8%
CROIC	16.7%	10.7%	13.7%	13.0%	8.5%	8.5%	13.4%	19.6%
GPA (Gross Profitability to Assets)	29.7%	28.5%	31.6%	33.0%	34.6%	28.5%	32.0%	34.6%

Much Better Valuation and Value Metrics | Enlarge

Side by side, the current valuation for STMP looks ridiculous.

Smart acquisition of Endicia but it looks like the market is pricing in perfection.

Here's a better look side by side.

Stamps.com Inc. (STMP)

June 9, 2015

Enter Ticker

Update

CLEAR

Save as PDF

Manually Enter Competitor into Yellow Cells

STMP

PBI

P/E	40.23	13.11		
Forward P/E	21.46	10.03		
PEG	2.01	6.56		
P/S	7.29	1.16		
P/B	5.18	80.63		
P/Cash	15.93	4.81		
P/Free Cash Flow	23.75	14.25		
Dividend Yield	0.00%	3.45%		
Payout Ratio	0.00%	41.00%		
EPS (ttm)	1.75	\$1.66		
EPS growth this year	-17.00%	3.50%		
EPS growth next year	13.61%	14.57%		
EPS growth past 5 years	42.70%	-6.70%		
EPS growth next 5 years	20.00%	2.00%		
Sales growth past 5 years	12.40%	-7.30%		
EPS growth quarter over quarter	-113.60%	90.50%		
Sales growth quarter over quarter	32.40%	-5.00%		
Return on Assets	11.70%	5.80%		
Return on Equity	14.30%	214.20%		
Return on Investment	17.80%	12.40%		
Current Ratio	1.50	1.00		
Quick Ratio	1.50	1.00		
LT Debt/Equity	0.00	46.95		
Total Debt/Equity	0.00	56.53		
Gross Margin	77.80%	56.00%		
Operating Margin	21.00%	18.10%		
Profit Margin	18.10%	9.80%		
Shares Outstanding	16.36	201.68		
Shares Float	14.75	201.11		
Insider Ownership	4.70%	0.30%		
Insider Transactions	-13.78%	0.00%		
Institutional Ownership	83.70%	87.30%		
Institutional Transactions	3.92%	0.40%		
Float Short	3.35%	11.08%		
Short Ratio	2.9	13.6		

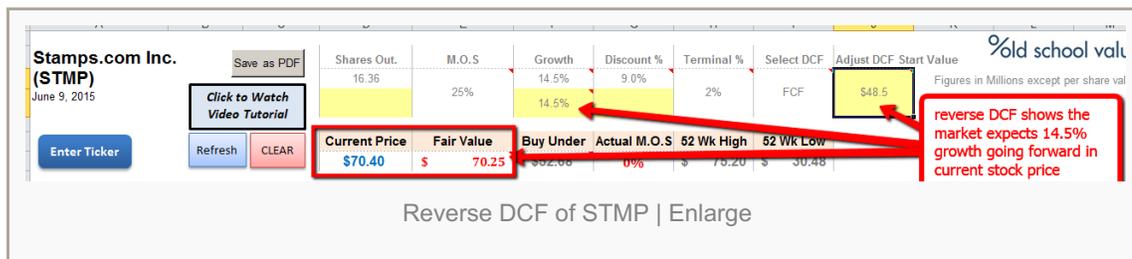
STMP vs PBI | Enlarge

Stamps.com wins when it comes to growth, but in terms of valuation and lower expectations, Pitney Bowes wins.

Priced for Perfection?

With the stock at \$70 and utilizing a [reverse DCF technique](#) to see what the market is expecting from the stock, the expected growth rate using the TTM FCF of \$48.5m is 14.5%.

Check out the inputs and the values in the screenshot below.



Analyst estimates are 13.6% for next year which is close to the expected 14.5% that I've calculated.

Long term 5 year growth rates are estimated at 20%.

14.5% growth is achievable. Even 20% is acceptable for a company with renewed growth, but when you combine an EV/EBIT multiple of 75, I'm not inspired.

Here's a [PDF report of the data](#) I'm using that you can download to double check the data.

	10.17%	20.07%
Growth Rate Using Estimate Data		
Next Year Growth	13.61%	
Long Term Growth	20.00%	
Next 5 Year Growth	20.00%	
Industry Long Term	20.80%	
Median	20.00%	

STMP Earnings Growth Estimates

Summing Up

I've certainly missed out on a 100% flyer, but I won't be chasing STMP.

So far, it has proven me wrong with the stock price, but in terms of valuation, always remember that price does not always equal value.

It's best to use price as a tool to take advantage of market fluctuations instead of taking it as an indicator of what a company is worth.

My main mistakes here upon review are related to overstating the risks and management ability to make the right decisions.