

j2 Global Communications Inc.

(JCOM:NASDAQ)

Outperform 2

j2 provides Internet-based fax, voice and data services to individuals and businesses. The company is the world's leader in Internet fax, offering the benefits of security, ease of use and efficiency. Based in Los Angeles, California, j2 was founded in 1995 and has about 175 employees.

JCOM: Strong Finish to 2004

- ◆ j2 Global posted strong 4Q results: EPS of \$0.37 vs. our \$0.34 estimate and revenue of \$29.8 million (46% year-over-year) vs. our \$29.5 million estimate. The EPS upside came from a lower tax rate, 28% vs. our 35% estimate; other income was \$400,000 lower than expected because of one-time items. Operating margins were 44%. Usage-based revenues grew modestly sequentially in a seasonally weak quarter; in 4Q03 they were down sequentially. Net subscriber adds were in-line at 38,800 bringing the total base to 553,949; ARPU of \$16.87 vs. our estimate of \$17.00. Churn increased modestly to 2.7% from 2.6%, but in line with historic levels.
- ◆ We are increasing our 2005 EPS estimate to \$1.72 from \$1.58 on a lower tax rate, 28% vs. 35%. Revenue growth of 37% to \$145 million and operating margin of 41.6%. Guidance is \$1.70-\$1.75. Our 06 estimate goes to \$2.15 from \$1.98 on a lower tax rate; 30% revenue growth.
- ◆ j2 has laid a foundation for continued growth in 2005, with a strong domestic marketing campaign, development of corporate channels, and several international initiatives. While taking a quarter longer than expected, closure of corporate deals began at the end of 3Q and that pattern continued through 4Q. We would not be surprised to see the corporate market amount to 5%-10% of revenue by the end of 2005. j2 has put in place a solid foundation for international growth, launching programs in several countries and having a presence in 1500 cities versus 1400 last quarter. Total non-US hits to j2's Web site increased 29% year-over-year. Finally, traffic to j2's Web sites remains the main source of paid subscribers.
- ◆ We are raising our price target to \$43 from \$40 based on a 25x P/E multiple applied to our \$1.72 2005 EPS estimate, and in-line with other valuation metrics such as EV/FCF/G and DCF. j2 has \$93.8 million in cash and nominal debt.

FY=	EPS Dec	Q1 Mar	Q2 Jun	Q3 Sep	Q4 Dec	Full Year
	2003A	\$0.20	\$0.24	\$0.28	\$0.32	\$1.04
Old	2004E	0.25A	0.29A	0.32A	0.34	1.20
New	2004A	0.25	0.29	0.32	0.37	1.23
Old	2005E	0.36	0.38	0.41	0.42	1.58
New	2005E	0.39	0.41	0.44	0.47	1.72
Old	2006E	0.45	0.49	0.51	0.53	1.98
New	2006E	0.49	0.53	0.55	0.58	2.15

Rows may not add due to rounding.

Please read disclosure/risk information on page 4 and Analyst Certification on page 5.

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EQUITY RESEARCH

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Communications Software
Company Comment

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Current Price
(2/3/2005) \$33.99
Projected 12-Month Target Price:
Old: \$40.00 **New:** \$43.00

52-Week Range \$36.35-\$18.82
Dividend/Yield \$0.00/0.0%
Book Value (12/04) \$5.42
Suitability Aggressive Growth

Shares Out. (mil.) 25.6
Market Cap. (mil.) \$870
Avg. Daily Vol. (10 day) 415,128

Proj. 3-Yr EPS Growth Rate 25%
ROE 29%
LT Debt (mil.)/% Cap. \$1/1%

P/E Ratios
2005E 19.8x
2006E 15.8x

Revenues (mil.)

	Old	New
2003A	\$72	\$72
2004A	\$106	\$106
2005E	\$144	\$145
2006E	\$189	\$189

Other Earnings Release Highlights

- j2 closed out a strong year with 48% year-over-year revenue growth and 71% growth in pretax earnings. Cash grew by almost \$30 million to \$93.8 million.
- The number of marketing partnerships increased to 28 in the quarter.
- Free DID customers grew by about 1 million in the quarter.
- The company expects ARPU to be stable at about \$17.
- Fixed represented 72% of subscription revenue, consistent with historical trends.
- FCF hit \$11 million in the quarter on cap ex of \$4 million.
- Guidance for 1Q is \$32.2 million and \$0.39, assuming some increase in S&M primarily. R&D should trend up modestly during year and G&A down modestly after being up slightly in 1Q from slightly more D&A.
- New product areas are another potential growth driver and include enhanced voice mail (such as virtual call answering), unified messaging and email services.

Income Statement (\$000)	1Q04	2Q04	3Q04	4Q04	FY04	1Q05E	2Q05E	3Q05E	4Q05E	FY05E	FY06E
Subscriber	\$ 22,062	\$ 25,063	\$ 26,985	\$ 29,050	\$ 103,160	\$ 31,336	\$ 34,281	\$ 36,834	\$ 39,156	\$ 141,606	\$ 183,578
Advertising	761	647	668	669	2,745	676	682	689	696	2,744	2,855
Licensing and other	119	121	118	80	438	115	115	300	300	830	2,800
TOTAL Revenue:	22,942	25,831	27,771	29,799	106,343	32,127	35,078	37,823	40,152	145,180	189,233
Cost of revenues	3,640	4,063	4,363	4,448	16,514	4,980	5,437	5,863	6,224	22,503	29,331
TOTAL Direct Costs:	3,640	4,063	4,363	4,448	16,514	4,980	5,437	5,863	6,224	22,503	29,331
Gross Profit	19,302	21,768	23,408	25,351	89,829	27,147	29,641	31,960	33,929	122,677	159,902
S&M	3,779	4,767	4,729	5,226	18,501	5,847	6,595	7,111	7,629	27,181	35,954
G&A	4,482	4,734	5,321	5,506	20,043	5,943	6,489	6,922	7,227	26,582	31,303
R&D	1,050	1,264	1,418	1,517	5,249	1,735	2,070	2,269	2,409	8,483	11,354
Amort of goodwill & other Operating Expenses:	9,311	10,765	11,468	12,249	43,793	13,525	15,154	16,302	17,265	62,246	78,611
Operating Profit	9,991	11,003	11,940	13,102	46,036	13,622	14,487	15,659	16,663	60,431	81,291
Interest and other income, net	186	352	505	140	1,183	500	500	500	500	2,000	2,000
Pretax Income	10,177	11,355	12,445	13,242	47,219	14,122	14,987	16,159	17,163	62,431	83,291
Taxes	3,778	3,866	4,316	3,655	15,615	3,954	4,196	4,524	4,806	17,481	24,987
Cum effect of acctg. change	-	-	-	-	-	-	-	-	-	-	-
Net Income	6,399	7,489	8,129	9,587	31,604	10,168	10,791	11,634	12,357	44,950	58,304
EPS	0.25	0.29	0.32	0.37	1.23	0.39	0.41	0.44	0.47	1.72	2.15
Diluted shares outstanding	25,564	25,585	25,572	25,809	25,632	25,800	26,050	26,300	26,550	26,175	27,175
Interest Income	186	352	505	140	1,183	500	500	500	500	2,000	2,000
D&A Expense	1,028	1,137	1,290	1,094	4,549	1,124	1,228	1,324	1,405	5,081	6,623
EBITDA	11,019	12,140	13,230	14,196	50,585	14,746	15,715	16,982	18,068	65,512	87,914

Ratios	1Q04	2Q04	3Q04	4Q04	FY04	1Q05E	2Q05E	3Q05E	4Q05E	FY05E	FY06E
Company GM	84.1%	84.3%	84.3%	85.1%	84.5%	84.5%	84.5%	84.5%	84.5%	84.5%	84.5%
S&M	16.5%	18.5%	17.0%	17.5%	17.4%	18.2%	18.8%	18.8%	19.0%	18.7%	19.0%
G&A	19.5%	18.3%	19.2%	18.5%	18.8%	18.5%	18.5%	18.3%	18.0%	18.3%	16.5%
R&D	4.6%	4.9%	5.1%	5.1%	4.9%	5.4%	5.9%	6.0%	6.0%	5.8%	6.0%
Operating Expenses	40.6%	41.7%	41.3%	41.1%	41.2%	42.1%	43.2%	43.1%	43.0%	42.9%	41.5%
Company OM	43.5%	42.6%	43.0%	44.0%	43.3%	42.4%	41.3%	41.4%	41.5%	41.6%	43.0%
D&A %	4.5%	4.4%	4.6%	3.7%	4.3%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
EBITA Margin	48.0%	47.0%	47.6%	47.6%	47.6%	45.9%	44.8%	44.9%	45.0%	45.1%	46.5%
Tax Rate	37.1%	34.0%	34.7%	27.6%	33.1%	28.0%	28.0%	28.0%	28.0%	28.0%	30.0%

Growth	1Q04	2Q04	3Q04	4Q04	FY04	1Q05E	2Q05E	3Q05E	4Q05E	FY05E	FY06E
Revenue -- YOY	51%	52%	47%	46%	48%	40%	36%	36%	35%	37%	30%
Revenue -- Sequential	12%	13%	8%	7%	8%	8%	9%	8%	6%	8%	25%
EPS -- YOY	23%	24%	13%	16%	18%	57%	42%	39%	25%	39%	25%

Important Investor Disclosures

Stock Ratings: The common stock of j2 Global Communications Inc. currently has an **Outperform** rating. Within our four-tiered rating system, Strong Buy (SB1) means that the stock is expected to appreciate and produce a total return of at least 15% and outperform the S&P 500 over the next six months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, a total return of at least 15% is expected to be realized over the next 12 months.* Outperform (MO2) means the stock is expected to appreciate and outperform the S&P 500 over the next 12 months; *for higher-yielding and more conservative equities, such as REITs and certain MLPs, an Outperform rating is used for securities where we are comfortable with the relative safety of the dividend and expect a total return modestly exceeding the dividend yield over the next 12 months.* Market Perform (MP3) means the stock is expected to perform generally in line with the S&P 500 over the next 12 months and is potentially a source of funds for more highly rated securities; and Underperform (MU4) means the stock is expected to underperform the S&P 500 or its sector over the next six to 12 months and should be sold.

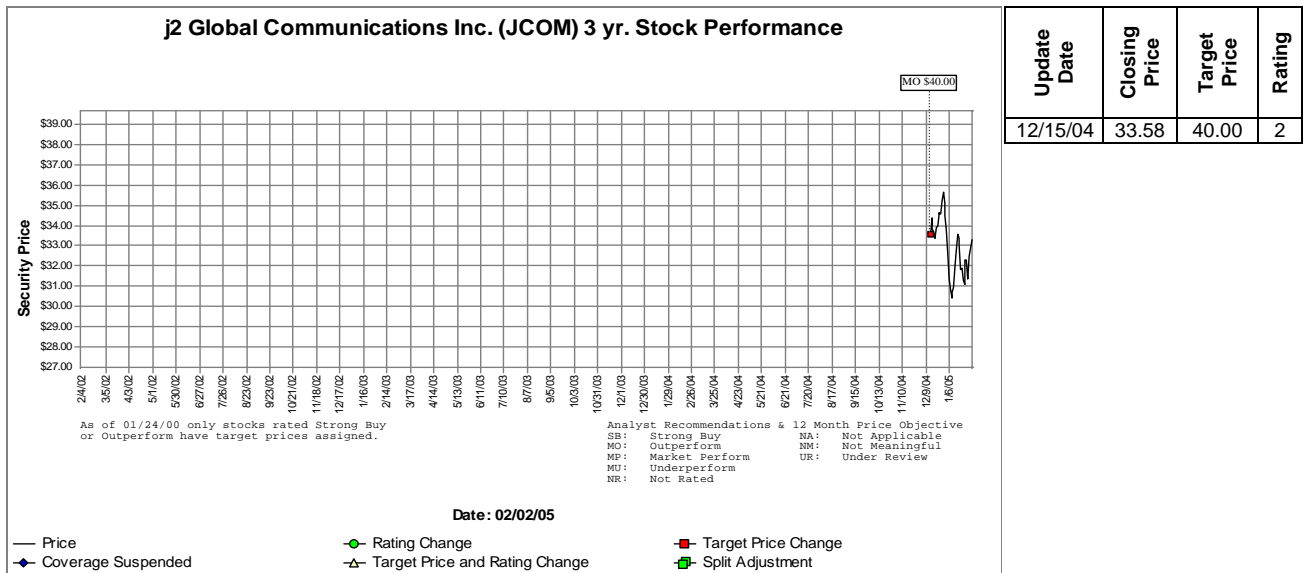
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Company Name	Disclosure
j2 Global Communications Inc.	Raymond James & Associates makes a NASDAQ market in shares of JCOM.

Target Prices: The information below indicates our target price and rating changes for JCOM stock over the past three years.



Valuation Methodology: The Raymond James methodology for assigning ratings and target prices includes a number of qualitative and quantitative factors including an assessment of industry size, structure, business trends and overall attractiveness; management effectiveness; competition; visibility; financial condition, and expected total return, among other factors. These factors are subject to change depending on overall economic conditions or industry- or company-specific occurrences. We use several valuation methods to derive a price target: EV/FCF/G, DCF, PEG, P/E, EV/EBITDA and comparables.

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Specific Investment Risks Related to the Industry or Issuer

Communications Software Industry Risk Factors

The Communications Software group is impacted by enterprise and carrier IT spending patterns, as well as timing and magnitude of new technology and service deployments.

Potential Risks

A low net sub add in any one quarter, emerging market, competition from unified messaging service providers, wide acceptance of digital signatures, and major changes in the universal service fund.

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