



STANFORD GROUP COMPANY

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Institutional Equity Research

Company Update

Applied Internet Technologies

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Profile

j2 Global Communications, Inc. provides outsourced, value-added messaging and communications services to more than five million customers around the world. j2 Global's network spans more than 1,500 cities in 22 countries on five continents.

JCOM: Another solid Q and a breakout year. Reiterate BUY, raising target to \$45

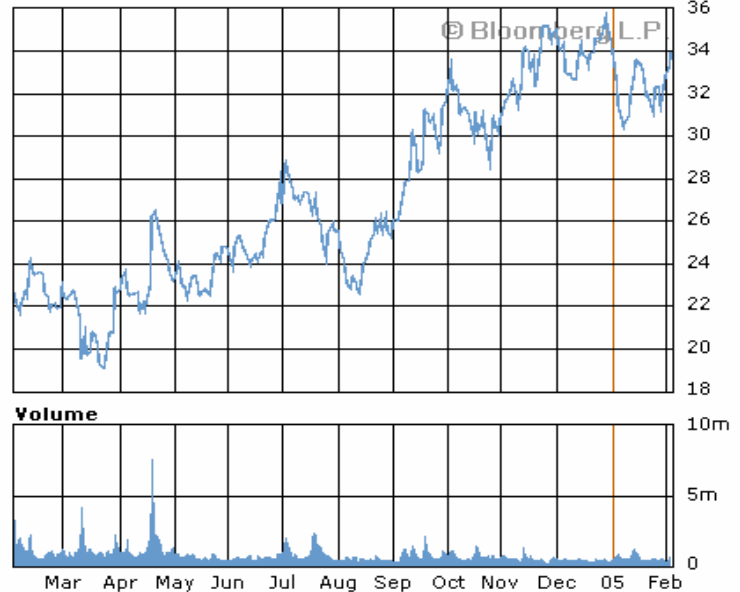
- j2 Global reported 4Q and FY04 financial results that nominally exceeded street expectations for revenue. EPS results were notably higher than anticipated due to a favorable variance in anticipated tax rate.
- Revenue of \$29.8 million was ahead of our expectation of \$29.6 million, and slightly ahead of guidance. EPS of \$0.37 was ahead of our estimate and consensus of \$0.34.
- The midpoint of FY05 revenue guidance (\$145-\$148 million) is above current consensus, as was 1Q05 revenue guidance. FY05 EPS guidance of \$1.70-\$1.75 is notably above our previous estimate and consensus, as is 1Q05 EPS guidance of \$0.39. This is again due to a favorable variance in forecast tax rates.
- **KEY TAKEAWAYS FROM THE CONFERENCE CALL:** Pricing in the legacy fax business remains sticky, having compressed by a mere 0.5%. International expansion is tracking nicely, particularly in Western Europe. The company is pursuing a similar strategy in Asia, but more significant milestones are yet to come in that region as the buildout there is nascent.
- We expect a favorable reaction to yesterday's release.
- We are raising our estimates as follows: for 1Q05, revenues move to \$32 million from \$31.5 million, and EPS moves to \$0.39 from \$0.35. For the full FY05, our revenue estimate moves up slightly to 145.3 from \$144.3.
- We are moving our price target to \$45 from \$42, based on relative value analysis and five-year DCF valuation. Our \$45 represents approximately 26x our FY05 EPS estimate, in the upper end of its TTM peak/trough P/E range of 30x-15x, and a discount to the Company's long-term earnings growth rate. We believe that JCOM represents a solid small-cap GARP play for a sector leader, and we reiterate our BUY recommendation.

J2 Global Communications

\$33.99/JCOM

Rating: Buy

February 4, 2005



JCOM:US

Market Data

52-Week Range	\$36.35 - \$18.82
12-Month Target Price	\$45.00
Market Cap (mil)	\$869
Float (mil)	19.9
Institutional Holdings	85%
Average Daily Volume	533,454

Sales/Earnings/Valuation

FY Dec	2003A	Prior 04E	2004A	Prior 05E	2005E	
Sales (mil)	\$68.0	\$106.1	\$106.3	\$141	\$143.0	
EPS	Q1	\$0.10	nil	\$0.25	\$0.35	\$0.39
	Q2	\$0.16	nil	\$0.29	\$0.38	\$0.42
	Q3	\$0.19	nil	\$0.32	\$0.42	\$0.45
	Q4	\$0.22	\$0.34	\$0.37	\$0.46	\$0.49
	Year	\$0.71	\$1.20	\$1.23	\$1.61	\$1.75
P/E Ratio	47.9x	28.3x	27.6x	21.1x	19.4x	

Fundamental Data

Dividend/Yield	nil / nil
LTD % Capitalization	2.0%
Current Year CF / Share	\$1.31
Book Value / Share	\$5.42

All disclosures can be found in the Important Disclosures section of this report.

j2 Global reported 4Q/FY05 results that slightly exceeded consensus expectations for revenue. EPS beat expectations by better than 10% (\$0.37 to \$0.34) on a better-than-anticipated tax rate, a result of the company optimizing its international operating structure to better take advantage of favorable tax laws abroad. A variance table of actual results versus our previous estimates appears below.

Exhibit 1: JCOM 4Q04 Variance Table

	4Q04			
	<u>Actual</u>	<u>Prev. Est.</u>	<u>Variance</u>	<u>% Var</u>
Revenue	\$29,799	\$29,565	\$234	0.8%
Gross Profit	25,351	24,923	428	1.7%
<i>Gross margin</i>	<i>85.1%</i>	<i>84.3%</i>	<i>0.8%</i>	
Operating expenses				
Selling	5,226	5,026	200	4.0%
R&D	1,517	1,449	68	4.7%
G&A	5,506	5,322	184	3.5%
Operating income	13,102	13,127	(25)	-0.2%
<i>Operating margin %</i>	<i>44.0%</i>	<i>44.4%</i>		
EBITDA	14,196	14,483	(287)	-2.0%
<i>EBITDA margin %</i>	<i>47.6%</i>	<i>49.0%</i>		
Income taxes	3,652	4,647	(995)	-21.4%
<i>Tax rate</i>	<i>27.6%</i>	<i>35.0%</i>		
Net income	<u>\$9,590</u>	<u>\$8,630</u>	<u>\$960</u>	11.1%
Diluted EPS	\$0.37	\$0.34	\$0.04	10.5%
Diluted sharecount	25,809	25,672	137	0.5%

Source: Company Releases and Stanford Group Estimates

The Company has now reported 31 consecutive quarters of revenue growth, and 12 consecutive quarters of net profit growth. Guidance for both 1Q05 and the full FY05 were above current consensus, though we note that the upside in the EPS guidance is almost directly in-line with the favorable new expectations for tax expense, rather than incremental operating margin. We are maintaining our BUY recommendation and raising our price target to \$45, from \$42.

We expect a favorable reaction in JCOM shares, as consensus revenue and EPS estimates will be coming up. The shares rallied in afterhours trading yesterday, and we believe favorable analyst's reports, coupled with the positive estimate revisions will propel the shares higher. We remain buyers of the stock, and are inclined to believe that the afterhours action yesterday will have momentum.

Key positive takeaways from the conference call:

- ARPU in the legacy fax business remained stable right at the \$17 level, compressing a mere 0.5% in the 4Q. We were modeling a 1.2% decline.
- The Company's international expansion is tracking nicely, particularly in Western Europe – where JCOM has websites, sales, and support in English, Spanish, German, French, and Dutch. The company has 460,000 telephone numbers in the UK, France, Germany, and the Netherlands. The same strategy of penetration that is working in Europe is now being employed in Asia.
- 4Q04 results exceeded consensus
- 1Q/FY05 guidance was above consensus estimates
- Cash and liquid investments increased by nearly \$10 million, and DSO decreased sequentially to 24.8 from 28.7.
- The Company has a new banner ad campaign on the AT&T (T/not rated) CallVantage VoIP phone service website

Bears could seize upon the following:

- The tax treatment and resulting EPS upside and favorable EPS guidance could be perceived by cynics as “accounting shenanigans.” We see little else negative that can be said about this quarter.

Summary opinion - we come down in the bull camp on JCOM.

We view the Company's execution as solid and consistent. In our view, JCOM represents a solid small-cap GARP play, and we'd be buyers of the stock. Our new \$45 price target is based on relative valuation (FY05 PEG ratios) and 5-year DCF, and both analyses are included at the end of this report. Our target represents approximately 26x our FY05 EPS estimate, which is at the upper end of the stock's peak/trough P/E range for the past 12 months. A multiple of 26x represents a discount to the EPS growth rate, and approximately 42% appreciation from yesterday's close.

Exhibit 2: DCF Model

	FY05	FY06	FY07	FY08	FY09	FY10	Terminal Value
EBITDA	70,867	92,008	109,837	127,258	143,194	152,168	
Less: taxes	(17,764)	(28,257)	(32,927)	(37,250)	(40,897)	(42,024)	
Less: CAPEX	(18,939)	(23,672)	(27,127)	(30,192)	(32,622)	(32,999)	
FCF	34,165	40,079	49,783	59,815	69,675	77,145	1,530,043
Discounted FCF	31,047	33,098	37,360	40,792	43,180	43,447	861,694
NPV	1,090,617						
<u>Plus: net cash</u>	<u>94,753</u>						
Equity value:	1,185,371						
Divided by diluted shares	26,209						
Price target	<u>\$45.23</u>						
Implied P/E	25.8x						

CAPM Assumptions	
rfr =	2.94%
RP =	6.7%
b =	1.06
K =	10.0%
term. grwth	5.0%
TVM	19.8x

Source: Firstcall, Company Press Releases, Stanford Group Estimates

Exhibit 3: Relative value analysis

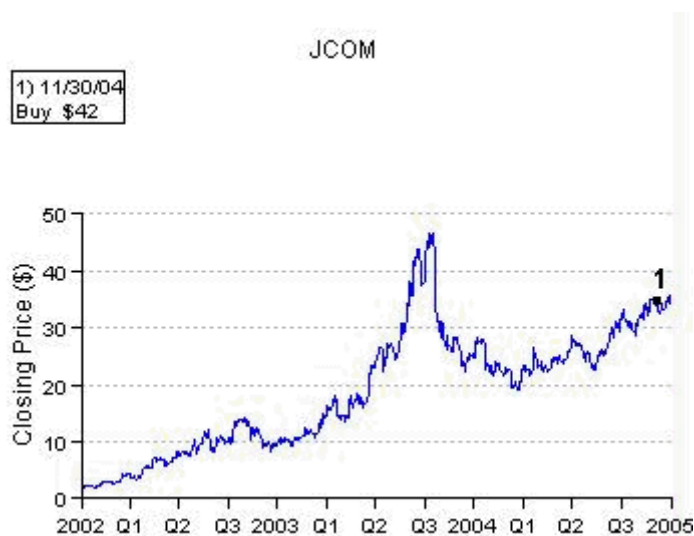
Multimedia Messaging	TIKR	Research Rating, Disclosures	Recent Price	Sharecount, MRQ (Mils)	Market Cap (\$Mils)	FY05 EPS	FY05 P/E	3-yr EPS Growth	P/E/G
			CLOSE						
Captaris	CAPA	Not rated	\$4.86	30.7	\$149.0	\$0.17	28.6x	25%	1.1
Double Click	DCLK	Not rated	\$8.22	116.7	\$959.0	\$0.29	28.3x	25%	1.1
Earthlink	ELNK	Not rated	\$10.15	160.5	\$1,629.0	\$0.96	10.6x	20%	0.5
EasyLink	EASY	Not rated	\$1.24	50.8	\$63.0	\$0.06	20.7x	20%	1.0
Premiere Global	PGI	BUY	\$9.69	72.3	\$700.4	\$0.76	12.8x	15%	0.9
Average							20.2x		0.9
j2 Global Current	JCOM		\$33.22	25.8	\$857.4	\$1.75	19.0x	28%	0.7
j2 Global Target	JCOM		<u>\$46.05</u>	<u>25.8</u>	<u>\$1,188.4</u>	<u>\$1.75</u>	26.3x	28%	0.9

Source: Firstcall, Company Press Releases, Stanford Group Estimates

Exhibit 4: JCOM Quarterly Earnings Model

	Historical FY03	Historical 1Q04	Historical 2Q04	Historical 3Q04	Estimate 4Q04	Estimate FY04	Estimate 1Q05	Estimate 2Q05	Estimate 3Q05	Estimate 4Q05	Estimate FY05
Revenue											
Subscriber	\$68,084	\$22,062	\$25,063	\$26,985	\$29,050	\$103,160	\$31,246	\$33,981	\$36,823	\$39,892	\$141,943
Advertising	2,708	761	647	668	669	2,745	701	743	784	828	3,056
Licensed services/other	830	119	121	118	80	438	82	84	87	89	342
Total	71,622	22,942	25,831	27,771	29,799	106,343	32,028	34,809	37,694	40,810	145,341
Cost of sales	13,323	3,640	4,063	4,363	4,448	16,514	5,125	5,569	6,031	6,530	23,255
Gross Profit	58,299	19,302	21,768	23,408	25,351	89,829	26,904	29,239	31,663	34,280	122,086
Gross margin %	81.4%	84.1%	84.3%	84.3%	85.1%	84.5%	84.0%	84.0%	84.0%	84.0%	84.0%
Operating expenses											
Selling	11,171	3,779	4,767	4,729	5,226	18,501	5,893	6,405	6,936	7,468	26,702
% of sales	15.6%	16.5%	18.5%	17.0%	17.5%	17.4%	18.4%	18.4%	18.4%	18.3%	18.4%
R&D	4,195	1,050	1,264	1,418	1,517	5,249	1,601	1,706	1,809	1,918	7,034
% of sales	5.9%	4.6%	4.9%	5.1%	5.1%	4.9%	5.0%	4.9%	4.8%	4.7%	4.8%
G&A	15,683	4,482	4,734	5,321	5,506	20,043	5,685	6,126	6,596	7,101	25,509
% of sales	21.9%	19.5%	18.3%	19.2%	18.5%	18.8%	17.8%	17.6%	17.5%	17.4%	17.6%
Amortization of intangibles	0	0	0	0	0	0	0	0	0	0	0
Extraordinary items	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses	31,049	9,311	10,765	11,468	12,249	43,793	13,180	14,237	15,342	16,487	59,245
Operating income	27,250	9,991	11,003	11,940	13,102	46,036	13,724	15,003	16,322	17,793	62,841
Operating margin %	38.0%	43.5%	42.6%	43.0%	44.0%	43.3%	42.9%	43.1%	43.3%	43.6%	43.2%
EBITDA	27,250	11,019	12,140	13,230	14,196	50,585	15,418	16,894	18,426	20,129	70,867
EBITDA margin %	38.0%	48.0%	47.0%	47.6%	47.6%	47.6%	48.1%	48.5%	48.9%	49.3%	48.8%
Other income (expense)	419	186	352	505	140	1,183	150	150	150	150	600
EBT	27,669	10,177	11,355	12,445	13,242	47,219	13,874	15,153	16,472	17,943	63,441
Income taxes	(8,137)	3,778	3,866	4,316	3,652	15,612	3,885	4,243	4,612	5,024	17,764
Tax rate	35.0%	37.1%	34.0%	34.7%	27.6%	33.1%	28.0%	28.0%	28.0%	28.0%	28.0%
Net income	\$35,806	\$6,399	\$7,489	\$8,129	\$9,590	\$31,607	\$9,989	\$10,910	\$11,860	\$12,919	\$45,678
Earnings per share											
-- Basic	\$1.58	\$0.28	\$0.32	\$0.35	\$0.41	\$1.36	\$0.42	\$0.46	\$0.50	\$0.54	\$1.92
-- Diluted	\$0.71	\$0.25	\$0.29	\$0.32	\$0.37	\$1.23	\$0.39	\$0.42	\$0.45	\$0.49	\$1.75
Weighted average shares											
-- Basic	22,732	23,121	23,212	23,348	23,567	23,312	23,667	23,767	23,867	23,967	23,817
-- Diluted	25,183	25,564	25,585	25,572	25,809	25,633	25,909	26,009	26,109	26,209	26,059

Source: SEC Documents, Press Releases, and Stanford Group Estimates

IMPORTANT DISCLOSURES**Price Chart****Explanation of Ratings**

- Buy:** Shares expected to increase in price over the coming twelve months.
Hold: Shares expected to be relatively stable in price over the coming twelve months.
Sell: Shares expected to decline in price over the coming twelve months.

Ratings Distribution of Coverage Universe as of December 31st 2004.

Total Universe	Count	Percentage	Investment Banking	Count	Percentage
Buy	89	51.45%	Buy	4	80%
Hold	68	39.31%	Hold	1	20%
Sell	16	9.25%	Sell	0	0%

Stanford Group Company Research Disclosures as of February 4, 2005.

Company	Disclosure
J2 Global Communications	1,6
Premiere Global	None

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- 11) Please see below for other relevant disclosures.

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