

Michael Gorlon

Date: 4/13/2016

Ira Sohn Research Conference Foundation - Investment Idea Contest

Recommendation: Short Stamps.com (NASDAQ:STMP)

Price when report was submitted (4/13/16): \$95.79 Target Price: \$62.60 Expected Return: 35%

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.



Source: Morningstar

Business Background:

Stamps.com was founded in 1998 and was one of the first companies to receive approval from the US Postal Service to allow them to sell postage over the internet. In addition to providing postal stamps, they also provide shipping solutions. They allow users to sign up and print stamps or shipping labels for mailing with a computer, printer, and internet connection. The process works by the customer first registering an account on their website and downloading their software. The customer then purchases the postage on their account and prints the postage. The amount is then deducted from a prepaid balance. (1) The customer is also able to customize their own stamps by using their own photos, designs or logos. Their target markets are small and medium size businesses, enterprises, home offices and online retailers.

Here's how it works...



Open a Stamps.com account

Simply click the "Get Started" button to sign up for Stamps.com and get access to all the services of the Post Office right from your computer 24/7. Even get discounts you can't get at the Post Office!



Try it out with \$5 free postage

We'll give you 4 weeks to see if Stamps.com is right for you. We're so confident you'll like Stamps.com, we'll also throw in \$5 free postage to use during those 4 weeks.



Don't pay unless you stay

Call 1-855-608-2677 to cancel your account within the 4-week trial period and pay no service fee. The monthly fee is just \$15.99, including the first month. Your service will continue uninterrupted as long as you do not cancel.

Source: *Stamps.com*

Stamps.com's stock price has increased from the low to mid 30's throughout most of the middle of 2014, to as high as the low 120's during March of 2016. It has since fallen back to the mid 90's as I am writing this report, but I believe the stock still has further to fall because of their lack of customer satisfaction, unfavorable medium to long term economics of the postage business, substitute ways of getting stamps than by using Stamps.com's service, and high valuation multiples despite 2015 being a negative year for net income.

The company is currently depending on acquisitions to spur growth. They are also focusing on non-GAAP results as opposed to GAAP results which don't include stock based compensation expense and contingent consideration charges. 2015 Non-GAAP net income was \$77.15 million and 2015 GAAP net income was (\$4 million). Meanwhile stock-based compensation was \$17.23 million and consideration charges were \$46.09 million. Stock based compensation is pretty self-explanatory but it is a little harder to get an idea what consideration charges are, but if you look in the 2015 10K you can see that they are related to a form of incentive income which sounds like an actual expense to me. Here is how management describes contingent consideration charges on page 35 – 36 of their 2015 10K:

"Contingent consideration charges are attributable to the change in the fair value of our contingent consideration liability related to the acquisition of ShipStation. Contingent consideration charges increased 446% to \$46.1 million in 2015 from \$8.4 million in 2014. The increase was primarily due to the adjustment of the contingent consideration liability as a result of the former ShipStation owners fully achieving all of their financial measures in accordance with the purchase agreement and an increase in our stock price."

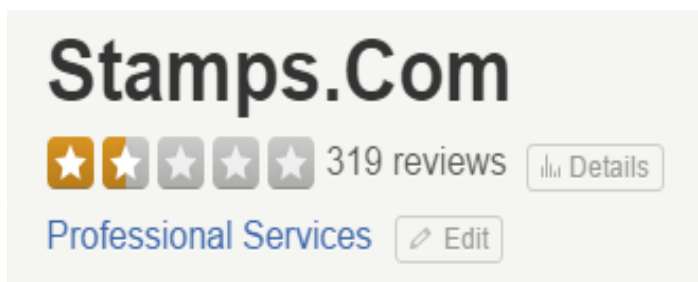
It is worthy to note that there were large amounts of insider sales in the first quarter of 2016 also and this will have a negative impact on earnings just as it did in 2015. At the risk of using a cliché, there is a quote from Warren Buffett that should remind investors of this déjà vu all over again, "If stock options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And, if expenses shouldn't go into the calculation of earnings, where in the world do they go?"

Reconciliation Provided by Management of Non-GAAP to GAAP Earnings for 2015

All amounts in millions except per share or margin data:	Non-GAAP Amounts	Stock-Based Compensation Expense	Intangible Amortization Expense	Non-recurring Expenses	Contingent Consideration Charge	Debt Amortization	Litigation Settlement Expense	Income Tax Benefit (Expense)	GAAP Amounts
Cost of Revenues	\$ 42.94	\$ 0.99							\$ 43.94
Research & Development	\$ 17.56	\$ 3.15							\$ 20.71
Sales & Marketing	\$ 51.60	\$ 4.55							\$ 56.14
General & Administrative	\$ 23.04	\$ 8.53	\$ 3.60	\$ 7.22					\$ 42.40
Contingent Consideration Charge					\$ 46.09				\$ 46.09
Litigation Settlement							\$ 10.00		\$ 10.00
Total Expenses	\$ 135.14	\$ 17.23	\$ 3.60	\$ 7.22	\$ 46.09		\$ 10.00		219.28
Income (Loss) from Operations	\$ 78.82	\$ (17.23)	\$ (3.60)	\$ (7.22)	\$ (46.09)		\$ (10.00)		\$ (5.32)
Interest and other income	\$ (0.22)					\$ (0.03)			\$ (0.25)
Pre-Tax Income (Loss)	\$ 78.60	\$ (17.23)	\$ (3.60)	\$ (7.22)	\$ (46.09)	\$ (0.03)	\$ (10.00)		\$ (5.57)
Benefit (Expense) for Income Taxes	\$ (1.44)							\$ 2.82	\$ 1.37
Net Income (Loss)	\$ 77.15	\$ (17.23)	\$ (3.60)	\$ (7.22)	\$ (46.09)	\$ (0.03)	\$ (10.00)	\$ 2.82	\$ (4.20)

Source: Stamps.com 4th Quarter 2015 Reconciliation of GAAP to Non-GAAP Financial Measures (2)

Poor Customer Reviews:



Source: Consumer Affairs (3)

Source: Yelp (4)

Stamps.com received poor ratings from both Yelp and Consumer Affairs. There were 16 complaints on the Consumer Affairs website during this year so far. All of these complaints are related to Stamps.com charging their customers a hidden monthly fee without them knowing, aggressive selling after a trial period, and customers having difficulty when trying to cancel the service.

Most of the poor ratings, which can be seen by following the links on the last page of this report in the sources section, are attributed to consumers not being happy with Stamps.com continuing to charge them for the services after the customer tries to cancel. The customers were being charged for a monthly fee but the customers felt cheated because they didn't know about this fee. It was hidden to them and when they tried to cancel it they were met with aggressive sales tactics to try and persuade their customers to keep the service. When you take a look at the huge build up in accounts receivable on the 2015 balance sheet, and the reduction for accounts receivable in working capital on the cash flow statement the complaints start to make more sense. Some of this increase is likely due to the consolidation from Stamps.com acquisition of Endicia during 2015, but it is very unlikely that this acquisition could have accounted for all of the \$43 million increase in A/R because Stamps.com acquired Endicia for \$250 million in cash and that would put A/R at 17% of the purchase price.

Fiscal year ends in December
USD in Million except per share data

		2015-12	2014-12	2013-12	2012-12	2011-12
▼ Assets						
▼ Current assets						
▼ Cash						
Cash and cash equiva...		65	41	67	30	54
Short-term investments		9	6	7	6	1
Total cash		74	47	73	36	55
Receivables		55	12	18	14	10
Deferred income taxes		—	2	—	—	—
Other current assets		8	6	7	6	6
Total current assets		137	68	97	56	72

Source: Morningstar

Fiscal year ends in December
USD in Million except per share data

	TTM	2015-12	2014-12	2013-12	2012-12	2011-12	2010-12
▼ Cash Flows From Operat...							
Net income	(4)	(4)	37	44	39	26	6
Depreciation & amortiz...	8	8	5	3	2	1	1
Amortization of debt d...	0	0	—	—	—	—	—
Deferred income taxes	(3)	(3)	(14)	(10)	(14)	—	—
Stock based compensati...	16	16	5	4	4	3	3
Accounts receivable	(32)	(32)	6	(3)	(4)	(6)	(1)
Accounts payable	—	—	—	—	2	—	(1)
Other working capital	16	16	4	(3)	(0)	(1)	(0)
Other non-cash items	47	47	9	—	—	(8)	(3)
Net cash provided by o...	46	46	52	36	27	15	5

Source: Morningstar

Lack of a Competitive Advantage:

Stamps.com has competition from FedEx, UPS, the U.S. Postal Office, Pitney Bowes and DHL. They are a small player in the postal and shipping market with only \$4.7B share of a \$230B market. This makes up only 2% and makes it very difficult for them to achieve any scale to spread their fixed costs over large volumes. Customers can also simply purchase the stamps at their nearby post office or grocery store instead of ordering them online. The long term economics aren't in this company's favor also since email has been a huge replacement for sending out letters. Amazon and other large online retailers use Fed Ex and UPS to ship goods instead of relying on services from the Post Office.



Source: March 2016 Company Presentation

Valuation:

<u>Trailing Twelve Months (TTM)</u>		<u>3 Yr Avg (3YA)</u>		<u>All Time Highs (ATH)</u>	
Trailing Twelve Months (TTM)		3 Yr Avg (3YA)		All Time Highs (ATH)	
Market Cap:	\$1,600M	Market Cap*:	N/A	Market Cap*:	\$1,600M
Sales:	\$214M	Sales:	\$163M	Sales:	\$214M
Earnings:	(\$4)	Earnings:	\$26M	Earnings:	\$44M
Equity	\$239M	Equity	\$163.33M	Equity	239
Free Cash Flow	\$44M	Free Cash Flow	\$41M	Free Cash Flow	\$49M
TTM Price/Sales	7	3YA Price/Sales	10	ATH Price/Sales	7
		3YA			
TTM Price/Earnings	N/A	Price/Earnings	62	ATH Price/Earnings	36
TTM Price/Book	6.69	3YA Price/Book	9.80	ATH Price/Book	6.69
TTM Price/FCF	36	3YA Price/FCF	39	ATH Price/FCF	33

*Market Cap for 3YA and ATH ratios is the market cap at the close of the market on 4/13/16, or \$1.6 billion.

The charts above show some common valuation ratios for Stamps.com. Over the last twelve months the company lost \$4 million so the P/E ratio is negative, but even if Stamps.com earned \$49 million – it’s all time high of net income – the P/E ratio would still be 36. 36 is a high P/E multiple to pay for even a company of quality caliber like Pepsi, Coke, or Google, and they have strong economics. Stamps.com doesn’t have a business model with a strong moat and long term economics.

What is also notable about these valuation metrics is the high Price/Sales ratio that the company trades for. It is down from the 10 times that it traded at for its three year average, but it is stilling trading at a multiple of 7 which is high.

Discounted Earnings Valuation Model:

Estimating future earnings for this company aren’t as easy as it may seem just by looking at the income statement because Stamps.com has tax benefits through net operating losses carry-forwards. These tax benefits make the company seem more profitable than it really is. On page F-27 of their 2015 10K, Stamps.com states that they have about \$123 million of NOL carry-forwards and \$1.5 million for federal and state income tax purposes as of December 31, 2015 which can be carried forward. These federal NOLs will begin to expire in 2020 and their federal tax credits will begin to expire in 2018.

Fiscal year ends in December		2006-12	2007-12	2008-12	2009-12	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12
USD in Million except per share data											
Revenue		85	86	85	82	86	102	116	128	147	214
Cost of revenue		25	25	23	23	24	26	28	28	33	44
Gross profit		60	61	62	59	62	75	88	100	114	170
▼ Operating expenses											
Research and developme...		9	8	8	9	9	9	10	11	13	21
Sales, General and adm...		39	46	49	45	51	49	54	55	69	99
Other operating expens...		—	—	—	—	—	—	—	—	8	56
Total operating expens...		48	54	58	53	60	58	64	66	91	175
Operating income		12	7	4	6	1	17	24	34	24	(5)
Interest Expense		—	—	—	—	—	—	—	—	—	0
Other income (expense)		5	4	3	1	0	1	1	0	0	0
Income before taxes		17	11	7	7	2	18	25	35	24	(6)
Provision for income t...		0	0	(3)	1	(4)	(8)	(14)	(10)	(13)	(1)
Net income from contin...		16	11	10	6	6	26	39	44	37	(4)
Net income		16	11	10	6	6	26	39	44	37	(4)

Source: Morningstar

Using a discounted net income model and the following five year assumptions gives a value per share of \$91.08.

Net Income Growth: 25% (5 year average)

Net Income Margin: 23% (5 year average)

Discount Rate: 10%

10 Year Treasury Bond: 1.76% (Terminal year growth rate)

The net income growth is based on the sustainable growth rate which is return on equity multiplied by the retention ratio. Stamps.com doesn't pay a dividend so I used the five year average return on equity of 25% as the growth rate. This is an optimistic assumption since it factors in the high net income margins and growth rates from the years 2011, 2012, 2013, and 2014 but the value of \$90.90 is still below the market price on 4/13/16 of \$95.79 which signals that this company is overvalued based on my conservative estimates. There were no significant expenses for stock based compensation during these years also, unlike in 2015 and the first quarter of 2016. And estimates for 2016 net income of \$85 million would require an astonishing growth rate of 94% from the 2013 all-time high of \$44 million which is also too optimistic.

I am going to assume that Stamps.com grows along with what the analysts are predicting for industry growth over the next 5 years which is 13%. Since the tax benefits don't expire I will assume a high net profit margin of 25% which is the average over the last 5 years when you exclude the loss in 2015. I will also assume a discount rate of 10% and use the 10 year Treasury bond for the slow growth period or the terminal value. This results in a value of \$62.72 which would be a 35% return from the \$95.70 price at the close of the market on 4/13/16.

Growth: 13%

Net Income Margin: 25%

Discount Rate: 10%
 10 Year Treasury: 1.76%

	0	1	2	3	4	5	TV
	2015	2016	2017	2018	2019	2020	2021
Sales	\$ 214.00	\$ 241.82	\$ 273.26	\$ 308.78	\$ 348.92	\$ 394.28	\$ 401.22
Net income	\$ 53.50	\$ 60.46	\$ 68.31	\$ 77.19	\$ 87.23	\$ 98.57	\$ 100.31
Discount Rate		0.91	0.83	0.75	0.68	0.62	
Discounted Net Income		\$ 54.96	\$ 56.46	\$ 58.00	\$ 59.58	\$ 61.20	

Sum of Discounted earnings	\$ 290.20
Net income in TV	\$ 100.31
Multiple = 1/(k-g)	12.14
Value	\$1,217.30
Discount Rate	62%
Discounted Value	\$ 755.84
Total Value	\$1,046.04
Shares Outstanding	16.71
Price Per Share	\$ 62.60

Catalysts:

Insider sales: The biggest catalyst for my short thesis is the large amount of insider sales that have occurred over the last two months. Insider sales can give false signals at times but in stamps.com case, the insider sales are so overwhelming that is too difficult to avoid. There has only been one stock purchase from an insider over the last 2 months and an astonishing 30 sales. This is very typical of the insiders, whom have a much deeper knowledge of the fundamentals and financials of the business than the outsider stock holders, understanding that the share price is way overvalued. Coming to this realization, they are bailing out of the ship. On top of all of this, there have also been 16 option exercises.

Date*	Name/Title	Shares	Transaction	Value	Cumulative # of Transactions
3/24/2016	James Bortnak (Co-President and Corporate and Business Development Officer)	5,000	Exercise	\$ 162,050.00	
3/24/2016	James Bortnak (Co-President and Corporate and Business Development Officer)	5,000	Sale at \$107.619	\$ 538,096.00	1
3/15/2016	G. Bradford Jones (Independent Director)	10,000	Buy at \$113.15	\$ 1,131,500.00	1
3/7/2016	Lloyd I. Miller (Independent Director)	539	Sale at \$123.113	\$ 66,357.00	2
3/7/2016	Lloyd I. Miller (Independent Director)	294	Sale at \$123.113	\$ 36,195.00	3
3/7/2016	Lloyd I. Miller (Independent Director)	189	Sale at \$123.113	\$ 23,268.00	4
3/7/2016	Lloyd I. Miller (Independent Director)	1,014	Sale at \$123.113	\$ 124,836.00	5
3/7/2016	Lloyd I. Miller (Independent Director)	524	Sale at \$123.113	\$ 64,511.00	6
3/4/2016	Lloyd I. Miller (Independent Director)	1,437	Sale at \$123.167	\$ 176,991.00	7
3/4/2016	Lloyd I. Miller (Independent Director)	782	Sale at \$123.167	\$ 96,316.00	8
3/4/2016	Lloyd I. Miller (Independent Director)	505	Sale at \$123.167	\$ 62,199.00	9
3/4/2016	Lloyd I. Miller (Independent Director)	2,704	Sale at \$123.167	\$ 333,043.00	10
3/4/2016	Lloyd I. Miller (Independent Director)	1,397	Sale at \$123.167	\$ 172,064.00	11
3/2/2016	Lloyd I. Miller (Independent Director)	3	Sale at \$123	\$ 369.00	12
3/1/2016	Lloyd I. Miller (Independent Director)	5,475	Sale at \$121.306	\$ 664,148.00	13
3/1/2016	Lloyd I. Miller (Independent Director)	2,983	Sale at \$121.306	\$ 361,854.00	14
3/1/2016	Lloyd I. Miller (Independent Director)	1,920	Sale at \$121.306	\$ 232,906.00	15
3/1/2016	Lloyd I. Miller (Independent Director)	10,300	Sale at \$121.306	\$ 1,249,448.00	16
3/1/2016	Lloyd I. Miller (Independent Director)	5,322	Sale at \$121.306	\$ 645,588.00	17
3/1/2016	Seth Weisberg (Chief Legal Officer and Secretary)	6,096	Exercise	\$ 76,504.00	
3/1/2016	Seth Weisberg (Chief Legal Officer and Secretary)	6,096	Sale at \$120.632	\$ 735,369.00	18
3/1/2016	Seth Weisberg (Chief Legal Officer and Secretary)	5,000	Exercise	\$ 162,050.00	
3/1/2016	Seth Weisberg (Chief Legal Officer and Secretary)	5,000	Sale at \$120.632	\$ 603,157.00	19
2/29/2016	Lloyd I. Miller (Independent Director)	2,948	Sale at \$119.377	\$ 351,923.00	20
2/29/2016	Lloyd I. Miller (Independent Director)	1,606	Sale at \$119.377	\$ 191,719.00	21
2/29/2016	Lloyd I. Miller (Independent Director)	1,034	Sale at \$119.377	\$ 123,435.00	22
2/29/2016	Lloyd I. Miller (Independent Director)	5,547	Sale at \$119.377	\$ 662,184.00	23
2/29/2016	Lloyd I. Miller (Independent Director)	2,865	Sale at \$119.377	\$ 342,015.00	24
2/26/2016	Lloyd I. Miller (Independent Director)	14,741	Sale at \$117.256	\$ 1,728,478.00	25
2/26/2016	Lloyd I. Miller (Independent Director)	8,028	Sale at \$117.256	\$ 941,335.00	26
2/26/2016	Lloyd I. Miller (Independent Director)	5,172	Sale at \$117.256	\$ 606,450.00	27
2/26/2016	Lloyd I. Miller (Independent Director)	27,732	Sale at \$117.256	\$ 3,251,757.00	28
2/26/2016	Lloyd I. Miller (Independent Director)	14,327	Sale at \$117.256	\$ 1,679,933.00	29
2/25/2016	G. Bradford Jones (Independent Director)	5,000	Exercise	\$ 116,900.00	
2/25/2016	Kyle Huebner (Co-President and Chief Financial Officer)	7,968	Exercise	\$ 99,998.00	
2/25/2016	Kyle Huebner (Co-President and Chief Financial Officer)	6,170	Exercise	\$ 199,969.00	
2/25/2016	Kenneth McBride (Chairman of the Board and Chief Executive Officer)	1,024	Exercise	\$ 12,851.00	
2/25/2016	Kenneth McBride (Chairman of the Board and Chief Executive Officer)	6,170	Exercise	\$ 199,969.00	
2/24/2016	James Bortnak (Co-President and Corporate and Business Development Officer)	5,000	Exercise	\$ 162,050.00	
2/24/2016	James Bortnak (Co-President and Corporate and Business Development Officer)	5,000	Sale at \$91.763	\$ 458,815.00	30
2/24/2016	Lloyd I. Miller (Independent Director)	5,000	Exercise	\$ 116,900.00	
2/24/2016	Lloyd I. Miller (Independent Director)	5,000	Exercise	\$ 65,500.00	
2/24/2016	Lloyd I. Miller (Independent Director)	5,000	Exercise	\$ 65,500.00	
2/24/2016	Lloyd I. Miller (Independent Director)	5,000	Exercise	\$ 52,750.00	
2/24/2016	Lloyd I. Miller (Independent Director)	5,000	Exercise	\$ 61,650.00	
2/16/2016	Mohan P. Ananda (Independent Director)	5,000	Exercise	\$ 52,750.00	
2/16/2016	Mohan P. Ananda (Independent Director)	5,000	Exercise	\$ 61,650.00	

*The date on which the insider initiated the transaction.

Source: Morningstar; SEC.gov (5)

Earnings Miss for 2016: As of now, the date that Stamps.com is expected to report earnings is May 5, 2016 but this can change at management's discretion. An earnings miss for the first quarter of 2016 will serve as a catalyst to send the stock price down to more reasonable multiples. Consensus estimates from four analysts covering this company for eps is \$1.06. This translates into expected net income of \$17.71 million for the quarter which would be the second highest net income earned over the past 10 quarters. Stamps.com actually had 4 negative quarters of operating income out of the last five and three out of five negative quarters for net income. Meanwhile, analysts' expectations for eps for 2016 are \$5.28 according to Fidelity and Yahoo. This results in expected net income of \$88 million which would be equal to double the highest net income Stamps.com ever reported. The highest earnings they reported were \$44 million in 2013. There is obviously a lot of optimism already discounted in the stock price making the stock very vulnerable to not only an earnings miss in the 1st quarter of 2016, but in the 2nd, 3rd and 4th as well. Management compensation for insider sales that are shown on page five will also increase the Sales, General and Administrative expenses line item on the income statement which is where Stamps.com expenses stock based compensation. This extra expense will create a headwind to beat or even meet earnings estimates as well as the overly optimistic assumptions.

Analyst Estimates

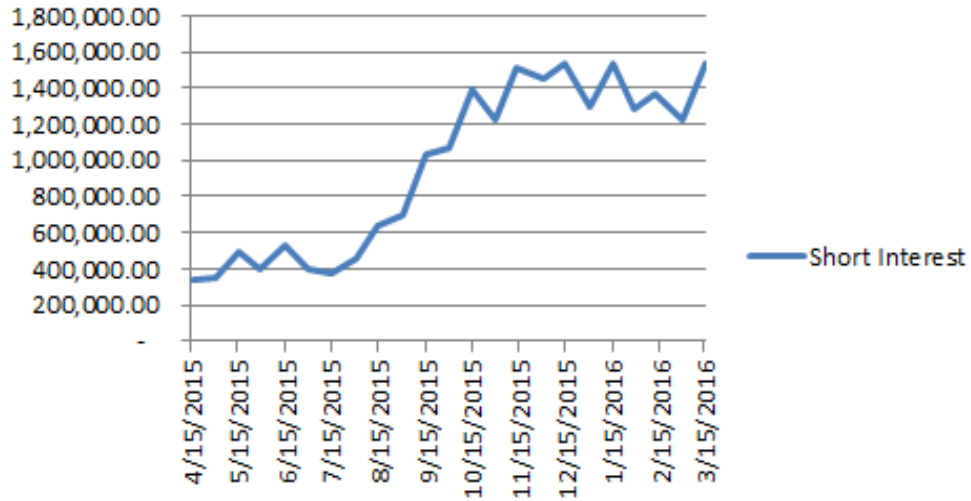
Get Analyst Estimates

Earnings Est	Current Qtr. Mar 16	Next Qtr. Jun 16	Current Year Dec 16	Next Year Dec 17
Avg. Estimate	1.06	1.26	5.28	6.16
No. of Analysts	4.00	4.00	4.00	3.00
Low Estimate	1.03	1.17	5.25	6.00
High Estimate	1.09	1.32	5.31	6.48
Year Ago EPS	0.72	0.97	4.43	5.28

Source: Yahoo Finance

Market realizes the overvaluation: With the recent pullback from around \$120 a share to around \$95 a share, the market seems to be catching on to this high reward and low risk opportunity for investors willing to go short. The chart below shows the increase in shares short from 4/15/2015 to 3/15/16.

Short Interest



Settlement Date	Short Interest	Avg Daily Share Volume	Days to Cover
3/15/2016	1,540,736.00	591,372.00	2.61
2/29/2016	1,228,169.00	730,582.00	1.68
2/12/2016	1,370,220.00	296,992.00	4.61
1/29/2016	1,285,960.00	375,236.00	3.42
1/15/2016	1,534,013.00	421,710.00	3.63
12/31/2016	1,302,428.00	387,074.00	3.36
12/15/2016	1,534,860.00	352,411.00	4.36
11/30/2016	1,454,955.00	247,788.00	5.87
11/13/2016	1,517,145.00	500,274.00	3.03
10/30/2016	1,228,540.00	191,797.00	6.4
10/15/2016	1,394,230.00	254,789.00	5.47
9/30/2016	1,071,417.00	247,564.00	4.33
9/15/2016	1,029,157.00	194,278.00	5.3
8/31/2016	702,072.00	349,822.00	2
8/14/2016	639,533.00	492,091.00	1.3
7/31/2016	461,281.00	205,987.00	2.24
7/15/2016	378,481.00	143,176.00	2.64
6/30/2016	399,216.00	171,055.00	2.33
6/15/2016	525,657.00	121,035.00	4.34
5/29/2016	400,438.00	149,494.00	2.68
5/15/2016	494,128.00	218,369.00	2.26
4/30/2016	352,403.00	137,185.00	2.57
4/15/2016	334,683.00	123,194.00	2.72

Source: NASDAQ.com (6)

The price to sales multiple is at seven which is high for a company that may advertise itself as an internet company, but it is mostly a company that sells stamps online. Also, the free cash flow multiple is at an all-time high and earnings aren't positive for 2015. Looking at the insider sales table on page five, you can see that a total of \$16 million was realized from insiders selling shares. There have also been a number of option exercises too.

Risk:

Earnings Beat – A material rise in earnings over the next quarter can send this stock price back past the \$100 mark. Management made acquisitions totaling about \$284 million over the past two years and focused on Non-GAAP earnings in the last earnings call which excluded stock based compensation and contingent consideration charges. This along with a recent rise in the overall market level have prevented the share price from falling further, but with analysts expecting earnings to come in at an all-time high for 2016, I think it is very likely that this company will disappoint at least one of the quarters and send the stock price down toward my target price of \$62.60.

Conclusion:

Despite rising short interest and a pullback from \$120 a share to \$95.79 a share, there is still opportunity left for short sellers to capture a favorable risk reward scenario by selling short shares of Stamps.com. Analyst estimates are too high for earnings per share in 2016, insiders have been continuing their sales through Q1 2016, and stamps.com is in a competitive industry where they aren't the one with the largest moat. There are alternative ways of getting stamps and the shipping services that Stamps.com provides, plus their customer views with Yelp and Consumer Affairs have been very negative. Price multiples such as the TTM price to sales ratio is at 7 which is a high multiple to pay. Price multiples are also high when measured against the company's 3 year averages, and all-time highs. My target price based on a 13% industry growth rate, 25% profit margin, 10% discount rate, and 1.76% growth rate for the terminal year result in a price target of \$62.60, or a 35% return from the close of the market price on 4/13/16.

Additional Sources:

- (1.) March 2016 Company Presentation
- (2.) <http://investor.stamps.com/releasedetail.cfm?ReleaseID=957338>
- (3.) https://www.consumeraffairs.com/online/stamps_com.html
- (4.) <http://www.yelp.com/biz/stamps-com-el-segundo>
- (5.) <http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001082923&type=SC&dateb=&owner=exclude&count=40>
- (6.) <http://www.nasdaq.com/symbol/stmp/short-interest>