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VeriSign Hopes Its Volatile Stock Finds Stability --- Web-Address Sales Slow, But Some Say Decline Is Only Temporary One

By Peter Loftus
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NEW YORK -- VeriSign Inc., which expects the Internet domain-name business to stabilize soon, hopes its shares do the same after months of volatility.

Late last month, the Mountain View, Calif., company lowered its outlook for 2002, and its shares have fallen 13% since then to trade at about $31. The company hasn't been selling Web addresses as quickly as it used to, and it expects further declines in the next six months.

But Chief Executive Stratton Sclavos expects VeriSign's Web-address sales to begin growing again in the second half of the year.

Some analysts and investors say VeriSign shares are now fairly valued, or they will be soon if they fall a little further.

"It's probably one of the cheapest stocks out there," says Ken Smith, analyst with Munder Capital Management, which owns about 1.8 million VeriSign shares, according to Thomson Financial/Carson.

Munder has recently added to its position with the stock in the low 30s, Mr. Smith said.

VeriSign hasn't always been so cheap. Like most Internet companies, VeriSign has taken its shareholders on a wild ride over the years.

The stock peaked at $258.50 in February 2000, just before the Internet bubble burst.

Though VeriSign now trades at more realistic levels, the stock has had its share of peaks and valleys in the last year. From $76 last Feb. 2, the stock quickly dropped to a 52-week low of $26.25 by April.

It then recovered a bit, only to fall more than 40% over the last six months. It isn't a stock for the weak of stomach.

The decline was fueled by concerns about the slowdown in VeriSign's Internet-address business.

Under a government-approved monopoly, VeriSign operates the central database, or registry, of all Internet addresses ending in dot-com, dot-net and dot-org.

It collects $6 annually for each name, including those sold at retail by competitors. After several years of explosive growth, the number of names in VeriSign's central registry fell 11% to 28.8 million at Dec. 31 from 32.4 million at June 30.

Besides operating the central registry, VeriSign also operates a separate business, Network Solutions, which sells Web addresses at retail, currently for as low as $29 a year.

Network Solutions' sales also have been declining. The number of active domain names under its management fell 15% to 13.6 million at Dec. 31 from 16 million at June 30.

Mr. Smith can't argue with the numbers, calling the Web-address slowdown a "legitimate complaint" about VeriSign. But he points out that VeriSign will continue to have a monopoly on the registry for names ending in dot-com -- by far the most popular -- through 2007.

Even if sales of new addresses fall off, renewals of existing addresses should guarantee VeriSign a steady cash flow in coming years, Mr. Smith said.

"People are overlooking the fact the company still has a legal monopoly on the registry business," Mr. Smith said.

The company also sells Internet security software and has recently branched into telecommunications services via acquisitions.

Mr. Smith thinks a fair valuation for VeriSign shares is in the mid-30s. The shares, he said, deserve a price-to-earnings multiple of at least 30, and he expects the company to exceed its target of 2002 earnings of $1 a share, excluding goodwill amortization and other items.

U.S. Bancorp Piper Jaffray analyst Eugene Munster arrived at an even higher price target using an earnings multiple. He estimates VeriSign's earnings will rise 25% annually in the next two to three years.

Ascribing a 1.5 multiple to that growth rate, and factoring in his 2003 earnings estimate of $1.25 a share, yields a valuation of $47, Mr. Munster said.

Mr. Munster's official 12-month price target is $40, which he says is the average between the earnings-based valuation and other valuations based on revenue.

He thinks the stock will trade no lower than $25, and he has recommended that investors should be "aggressive buyers" of VeriSign shares between $27 and $30.

Ask a short-seller, of course, and you will get a different answer.

A big reason for the volatility in VeriSign shares is that it has become a favorite of short-sellers.

Short interest in VeriSign totaled about 23.3 million shares at Jan. 15, down 18% from December but still a healthy chunk of the company's approximately 210 million shares outstanding.

A short seller bets that a stock price will decline.

But even following the recent decline in VeriSign's stock price, famed short-seller Manuel Asensio isn't declaring victory. The New York investor continues to have a short position and he says VeriSign shares will remain over-valued unless they fall to $10.

Mr. Asensio believes VeriSign faces a serious competitive threat from other Internet-address sellers.

The company has 80 competitors, such as Register.com, in the retail Internet address business compared with three years ago when there were fewer than five.

There are also new address extentions such as dot-info and dot-bus to compete with the VeriSign registry's dot-com and dot-net.