PRESCIENCE POINT

2016 STMP PT $15

STAMPS.COM

THE SOFTWARE VALEANT?

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Table of Contents

Executive Summary

Prescience Point believes:

Shares of Stamps.com ("STMP", or "the company") are grossly overvalued. Just as a review of legal filings resulted in the chance discovery of Valeant's "Big Secret", its relationship with undisclosed affiliate Philidor, our review of scores of legal filings has resulted in the uncovering of STMP's Big Secret – the undisclosed formula behind its astonishing financial results. We have identified undisclosed business affiliates (e.g., IntuiShip) that STMP has aligned with to exploit legacy USPS postage reseller discount contracts to skim 100%-margin revenue from the USPS. We believe this scheme is abusive, in that it violates the spirit and intent of these USPS-issued contracts, and that it results in the cannibalization of USPS business, an expense to US taxpayers but a jackpot for STMP. By our estimates, ~65% of STMP's EBITDA is derived from this scheme and is at risk of vanishing. Based on our understanding of the arrangements, and certain conversations that The Capitol Forum, a well-respected regulatory research firm based in Washington DC, has had with the Postal Regulatory Commission and industry participants, we view this arbitrage scheme as unsustainable and likely to fall apart in the upcoming months.[1]

To compound matters, for several reasons elaborated in this report, we have come to view IntuiShip and Stamps.com as essentially operating 'as one.' One such datapoint comes from a recent report published by The Capitol Forum, which quotes an IntuiShip employee as stating that "IntuiShip does its entire domestic small parcel shipping through Stamps.com."[2] *Another that we have identified is that its website redirects to www.Stamps.com!*

STMP has been non-transparent with shareholders, inadequately disclosing how it derives the majority of its profitability and the likelihood it could disappear; Wall Street analysts have no clue about how STMP is actually generating the majority of its financial results (STMP consistently obliterates Wall St consensus estimates), or that the aforementioned earnings stream should not be capitalized with any real multiple. As a result, STMP has been successful in its efforts to inflate its stock price beyond reasonable measure. ***Based on our analysis, STMP is worth ~$15 per share, ~80% below current trading levels.***

STMP has found a way to "game" the USPS postage reseller program – Our research into Stamps.com uncovered curious and undisclosed relationships between Stamps.com and postage reseller companies (e.g., IntuiShip) that caught our attention, as the relationships emerged around the same time that Stamps.com began its 1) M&A binge, and 2) ascension to Wall Street darling status due to its consistent ability to mysteriously blow out Wall Street earnings expectations. Our research, including a review of hundreds of pages of litigation as well as a deep forensic accounting analysis, has led us to conclude that Stamps.com has found a way to "game" postal rates using the USPS postage reseller program.

Our research indicates that Stamps.com has partnered with certain undisclosed Utah-based postage resellers in order to recharacterize low-volume shipping customers that would not qualify for USPS discounts as high-volume shipping customers that would. In doing so, we believe that Stamps.com has found a way to skim undeserved revenues off the USPS. Further, we believe that Stamps.com, using postage reseller discounts, is part of a larger scheme to buy USPS postage at discounted rates applicable to only high-volume shippers, and then resell that postage to customers at the standard marked up rate, effectively capturing an "arb spread". We think that this scheme results in Stamps.com massively juicing its profits despite adding no economic value to the USPS.

STMP's application of the USPS postage reseller program appears to violate the intent and purpose of this program – The USPS created the postage reseller program in 2009 to compete with Fedex and UPS. The program consisted of the USPS offering negotiated discounted rates for Priority and Express Mail through Negotiated Service Agreements ("NSAs") to certain intermediary companies ("postage resellers"). The intent of the program was for the postage resellers to source new customers – specifically, high-volume shipping end users – for the USPS. The program was meant to benefit both the USPS and the reseller: the postage reseller would keep the difference between the price they charged the end user and the discounted rate negotiated with the USPS; in receiving new customers, the USPS would grow.

[1] The Capitol Forum. *Stamps.Com: Reliance On Negotiated Service Agreements With USPS, Relationship With Intuiship Leaves Stamps.Com With Significant Regulatory Risk; USPS Can Terminate NSA With 30 Days' Notice If Agency Finds Abuse*. 2016. 8 July 2016.
[2] Ibid.

We believe STMP's usage of the reseller program is abusive and cannibalistic to the USPS – Insofar as postage resellers target the high-volume shipping clients of UPS and Fedex, the USPS stands to benefit. However, our research indicates that STMP and its postage reseller affiliates (primarily IntuiShip) are acquiring current USPS customers who were paying higher postage rates to the USPS (because they were not receiving postage resellers' discounts) and driving them through the reseller program, which would result in a reduction of USPS revenues and enrichment of STMP and its reseller affiliates. STMP's robust "revenue synergies" and ARPU spike are evidence, in our view, that Stamps.com's approach to using the reseller program is cannibalistic to the USPS. But even further, on page 7 of this report, we prove definitively that USPS resellers and Stamps.com are cannibalizing USPS volumes!

Reseller NSAs are cancellable by the UPS on 30 days' notice if reviewed and found to be abusive – We have reviewed every NSA signed during the relevant period that the reseller program originated and believe that the NSAs relevant to Stamps.com's massive surge in earnings could all be cancelled with 30 days' notice.

We believe the reseller program NSAs benefiting STMP are at high risk of cancellation –

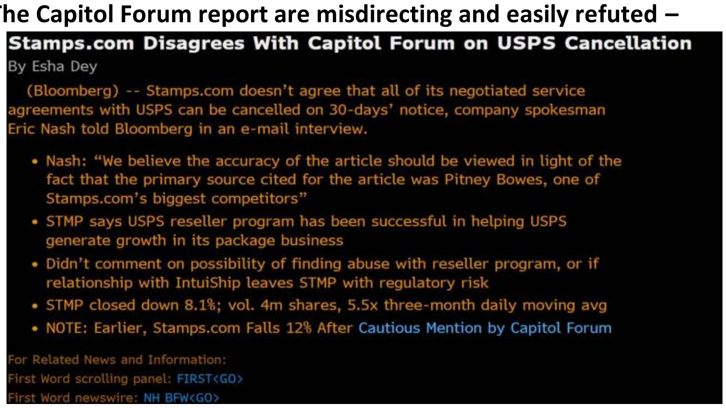
- We believe that the OIG will open an investigation into these NSAs due to our exposure of this issue –
    - The USPS OIG will find fault with Stamps.com's usage of the reseller programs, as outlined in this report
- The PRC is already looking into whether commercial pricing arrangements should be restructured in 2017; this restructuring is likely to result in a draconian outcome for STMP, regardless of whether or not the OIG intervenes
- The Capitol Forum is well-connected on the Hill and is very adept at calling attention to government abuse issues; we believe the publication of their reports has caused the precipitous decline in STMP equity over the past several days.
- Our report goes into great detail, showing why we believe the NSA programs are abusive
- Multiple government agencies could find fault with STMP's usage of the reseller programs, bringing an end to its primary earnings stream (USPS, USPS OIG, PRC)

Even if the reseller program NSAs are not cancelled, the STMP earnings stream in question is likely to fade away beginning in 2017 due to the USPS's reevaluation of certain discount agreements.

Reports published by The Capitol Forum on Fri July 8 & Tues July 12 validate our research, have resulted in a precipitous decline in STMP stock – Last Friday, The Capitol Forum, a well-respected regulatory research firm based in Washington DC, published a research report on abuse of the USPS reseller program and STMP's involvement, corroborating our own research findings. Its report, entitled *"Stamps.com: Reliance on Negotiated Service Agreements with USPS, Relationship with IntuiShip Leaves Stamps.com with Significant Regulatory Risk; USPS Can Terminate NSA with 30 Days' Notice if Agency Finds Abuse,"* delved into how STMP has potentially been taking advantage of the USPS postage reseller program in a manner that is both unsustainable and likely to draw scrutiny from postal regulators. The Capitol Forum's investigation encompassed numerous source interviews, including conversations with the Postal Regulatory Commission, which suggest that the USPS may begin looking into Stamps.com's relationships with postage resellers.

The Capitol Forum did a great job dissecting STMP's relationships with postage resellers and regulatory risk, the firm's area of expertise. In this report, we reveal new information and shed light on what have yet been unknowns – we provide definitive evidence STMP's usage of postage reseller programs is abusive (it cannibalizes USPS volumes), we establish that STMP's arrangements with postage resellers are its primary earnings stream, we estimate the financial impact that a likely regulatory action will have on STMP's earning power, and we apply our understanding of the most realistic outcome in valuing STMP's stock. In our view, the decline in STMP equity has only just begun.

Sell-side and STMP responses to The Capitol Forum report are misdirecting and easily refuted –


Stamps.com Disagrees With Capitol Forum on USPS Cancellation

By Esha Dey

(Bloomberg) -- Stamps.com doesn't agree that all of its negotiated service agreements with USPS can be cancelled on 30-days' notice, company spokesman Eric Nash told Bloomberg in an e-mail interview.

- Nash: "We believe the accuracy of the article should be viewed in light of the fact that the primary source cited for the article was Pitney Bowes, one of Stamps.com's biggest competitors"
- STMP says USPS reseller program has been successful in helping USPS generate growth in its package business
- Didn't comment on possibility of finding abuse with reseller program, or if relationship with IntuiShip leaves STMP with regulatory risk
- STMP closed down 8.1%; vol. 4m shares, 5.5x three-month daily moving avg
- NOTE: Earlier, Stamps.com Falls 12% After Cautious Mention by Capitol Forum

For Related News and Information:
First Word scrolling panel: FIRST<GO>
First Word newswire: NH BFW<GO>

	Capitol Forum Report Claim	Sell Side Response**	STMP Management Response***	Prescience Point's Research Indicates:
1	The Capitol Forum's research was extensive; the firm interviewed a number of industry experts, including very senior government officials with oversight over the USPS, and even interviewed someone from Intuiship.	The sell side talked to management	Pitney Bowes put The Capitol Forum up to it!	Management's dismissal appears a deceptive attempt at misdirecting investors. Our investigation, including calls with experts in the industry, and a forensic review of Stamps.com's business model and litigation history, **corroborates the claims in The Capitol Forum report.**
2	Companies such as Stamps.com are potentially taking advantage of the USPS reseller program.	No rebuttal - sell-side analyst notes do, however, indicate they do not even understand what the reseller program is	Stamps.com spokesperson Eric Nash claims USPS reseller program has been successful in helping USPS generate growth in its package business	How can it be that STMP reports massive ARPU synergies each time it acquires a company? STMP is taking volume from low-volume shippers without a huge postage discount (via ShippingEasy, ShipStation, shipworks, any customer list, etc.) and putting that same volume through Stamps.com, and now receiving the "high-volume shippers discount." It is obvious that Stamps.com's roll-up strategy is *NOT* generating incremental volume for the USPS but is simply repurposing volume.
3	**Stamps.com's usage of reseller program is potentially abusive** -- resellers are being used by Stamps.com regardless of cannibalization impact on USPS	No comment / rebuttal	Stamps.com would not comment on possibility of finding abuse with reseller program	**The program is abusive** -- a) see comment above, b) tiny workforce at reseller companies suggests no real salesforce to find new customers, and c) earnings from reseller program growing faster than earnings from core Stamps.com software service.
4	The USPS will find fault with reseller program if it is cannibalizing existing USPS volume and could terminate with 30 days' notice	No comment / rebuttal	See above; Stamps.com did not agree that "all of its NSAs with the USPS" could be cancelled with 30 days' notice	**The USPS OIG will find fault with Stamps.com's usage of the reseller programs - the company's robust "revenue synergies" and ARPU spike are evidence, in our view, of Stamps.com's cannibalistic approach to using the reseller program (see F2). Moreover, The Capitol Forum report has a statement from Parcel Partners (postage reseller) who directly says the reseller program cannibalizes existing volumes. Finally, on the next page, we provide definitive evidence USPS volumes are being cannabilized.** **We have reviewed every NSA signed during the relevant period that the reseller program originated and believe that the NSAs relevant to Stamps.com's massive surge in earnings could all be cancelled with 30 days' notice.**
5	Stamps.com's acquisition spree and resulting Vertical integration enables Stamps.com to extract a greater portion of postage resellers' revenue	No comment / rebuttal	No comment / rebuttal	Reading through key pieces of Stamps.com litigation proves that Stamps.com used its increased scale (post-acquisition spree) and negotiating leverage to extract higher revenue share from a reseller partner.
6	NSA reseller postal arbitrage scheme **could account for as much as 65% of Stamps.com EBITDA.**	Sell-side analysts think any issues with Intuiship and USPS would not be meaningful to Stamps.com revenues, as STMP has many integration partners	**No comment / rebuttal**	Sell side response shows a total lack of understanding of the issue at hand. Comparing Intuiship against all STMP integration partners is wholly misdirected, as different integration partners have unique business models and, therefore, business relationships with STMP. The issue at point is STMP's arrangements with one type of integration partner --> postage resellers. **We quantify the size of the reseller program in Stamps.com's business through multiple pieces of analysis and triangulate to an answer that suggests business could be even larger than 65% of Stamps.com EBITDA.**
7	Stamps.com litigation explains how Stamps.com has been able to take advantage of opaque postage reseller program.	No comment / rebuttal	No comment / rebuttal	Refer to comment below
8	Intuiship is key affiliate used by Stamps.com to take advantage of postage reseller programs; **Intuiship employee stated that Intuiship does its entire domestic small parcel shipping through Stamps.com.**	Intuiship is one of 400 partners and therefore could not be material to Stamps.com's business	No mention of Intuiship	Sell side response shows a total lack of understanding of the reseller program -- the sell side compares businesses such has Amazon and Paypal to Intuiship and Parcel Partners, **showing that the sell side does not even understand Stamps.com's business model in the first place.** Intuiship is compared to other partners that have nothing to do with postage reseller program. In fact, Stamps.com only lists Intuiship and Parcel Partners as its postage reseller partners.

**Largely taken from Craig Hallum notes and emails from the morning of July 12, 2016

***Taken from Bloomberg interview provided by Eric Nash, spokesperson for Stamps.com

It is clear to us that the market still does not understand the claims and implications of The Capitol Forum report
The sell side has no clue how Stamps.com's business model actually works
Management's rebuttals to The Capitol Forum report are woefully inadequate and confirmatory of our thesis

Our view: ~80% downside in Stamps.com shares due to significant and misunderstood earnings stream resulting in huge regulatory risk

To be clear, we believe the only debate left to be had on Stamps.com is whether the reseller program is cannibalistic or beneficial to the USPS:

Definitive Evidence that USPS Resellers and Stamps.com are Cannibalizing USPS Volumes

Let's start with a couple of statements before jumping right to the punchline.

From the Stamps.com Q1 2016 earnings call:

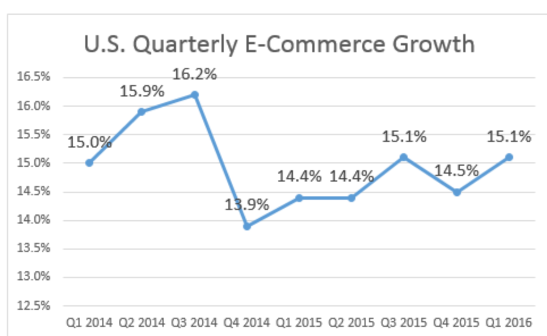
> *Last year, Stamps.com, along with all of its subsidiaries, represented an estimated one-third of all USPS domestic priority mail, which is the primary package service of the U.S. Postal Service.* – STMP CEO, Ken McBride

From the Stamps.com 2015 10-K on postal monetization:

> *We have an arrangement with the USPS under which if a customer or integration partner prints a certain amount of domestic or international Priority Mail or Priority Mail Express postage, the USPS compensates us directly and the customer can qualify to have their service fees waived or refunded.*

So we know that Stamps.com monetization comes from Priority Mail and that by Q1 2016, Stamps.com and its partners (Endicia, ShipStation, Shipworks, etc.) represented 1/3 of all priority mail volumes.

We also know that E-Commerce is growing at 15% in Q1.



Source: U.S. Commerce Department. Non-adjusted figures.

So if both USPS and the USPS resellers (who only resell priority mail) were actually driving incremental volumes to the USPS, you would surely expect USPS Priority Mail volumes to be growing at a rather rapid pace.

And that is exactly what you are seeing at USPS competitors, FDX and UPS:

	Q1 2016
Fedex Domestic Ground Volume Growth	10.5%
UPS B2C Domestic Package Growth	6.0%

http://s1.q4cdn.com/714383399/files/doc_downloads/statistical/2016/FedEx-Q4-FY16-Stat-Book.pdf
http://media.corporate-ir.net/media_files/IROL/62/62900/UnitedParcelServiceInc_Q1_10_Q.pdf

So if Stamps.com can make the claim to a Bloomberg reporter that "The USPS reseller program has been successful in helping USPS generate growth in its package business" (refer to management's response to the Capital Forum report, above), you would surely expect to see growth in Priority mail volumes at a pace similar or greater to that of UPS/FDX. However, looking at the Q1 2016 USPS 10-Q suggests something entirely different.

(in millions)	Three Months Ended 2016	2015
Shipping and Packages Volume:		
Priority Mail	247	248
Priority Mail Express	8	8

http://about.usps.com/who-we-are/financials/financial-conditions-results-reports/fy2016-q2.pdf

USPS Priority mail volumes actually declined by (0.4)% in Q1! This is a dramatic underperformance relative to its peers.

Let's say Stamps.com actually is growing USPS volumes by 10%, a similar rate that FDX is growing. This implies that their other partners are showing Priority Mail declines of almost 6%. This sure smells like cannibalization to us.

	Q1 2016	% of Total
Stamps.com Priority Mail Volume Growth	10.0%	33.3%
Other Partners Priortiy Mail Volume Growth	(5.6)%	66.7%
Total USPS Priority Mail Growth	**(0.4)%**	**100.0%**

This analysis definitively proves that Stamps.com 40% organic growth in the quarter was coming entirely from postal monetization that was cannibalizing existing USPS volumes.

Introduction

The public research that has been disseminated on Stamps.com to date has only scratched the surface on the truth about the company's business model. For instance, we doubt that until very recently any Stamps.com shareholder had ever heard of a little company called IntuiShip.

This all changed last week when The Capitol Forum, a well-respected regulatory research firm based in Washington D.C., exposed how certain companies have potentially been taking advantage of the USPS postage reseller program. We too had been researching these relationships with extreme skepticism and want to commend The Capitol Forum for their in-depth primary research.

We believe that our report exposes the final smoking gun that will put the nail in the coffin on the Stamps.com mystery – a stock that has somehow seen its share price and operating results sky-rocket over the past few years despite facing obvious secular tailwinds. While Valeant shareholders will always be haunted by the moment that Philidor was exposed, we believe that Stamps.com shareholders will forever be haunted by the moment that IntuiShip was exposed.

Our research into Stamps.com uncovered curious and undisclosed relationships between Stamps.com and postage reseller companies that caught our attention. These relationships emerged around the same time that Stamps.com began its 1) M&A binge, and 2) ascension to Wall Street darling status due to its consistent ability to mysteriously blow out Wall Street earnings expectations. Our research, including a review of hundreds of pages of litigation as well as a deep forensic accounting analysis, has led us to conclude that Stamps.com has found a way to "game" postal rates using the USPS postage reseller program. Our suspicions were only bolstered by The Capitol Forum's recent report, which included primary interviews with postal regulators and industry participants, further confirming our research.

We believe that Stamps.com has partnered with certain Utah-based postage resellers as part of a scheme to characterize low-volume shipping customers that should not qualify for USPS discounts as high-volume shipping customers. In doing so, it seems that Stamps.com has found a way to skim undeserved revenues at the expense of the USPS. We suspect that Stamps.com, using postage reseller discounts, is part of a larger scheme to buy USPS postage at discounted rates intended for only high-volume shippers, and then resell that postage to customers at the standard marked up rate, effectively capturing an "arb spread". We think that this scheme resulted in Stamps.com massively juicing its profits despite adding no economic value to the USPS. More importantly, we view this arbitrage scheme as unsustainable and likely to fall apart in the upcoming months, with a very catastrophic effect on Stamps.com's stock price.

The USPS Postage Reseller Program – Background

First, a slight bit of background for readers unfamiliar with the postage reseller program. We dive into the specific details of these arrangements later in this report, but given how crucial resellers are to understanding Stamps.com's business model, we believe it is important that we address them here.

In 2009, as DHL withdrew from the United States, the USPS was looking for a way to expand its presence in the lucrative, growing e-commerce market and to compete more effectively against UPS and FedEx. With those goals, the postage reseller program was created in 2009. In addition to providing direct discounts to high volume shippers, the USPS began providing "licenses" (known as Negotiated Service Agreements or NSAs) to certain intermediary companies that the USPS viewed as well positioned to source **new** high volume shipping clients for the USPS. These intermediary companies – known as resellers – were granted direct access to attractive postage discounts so that they could pass these discounts on to the high volume shippers they sourced with minimal friction. The resellers were to essentially be an "outsourced" sales force for the USPS. So, the USPS enlisted the help of 3 companies that already had historical ties to DHL in order to grow the USPS's e-commerce presence: Express 1, Parcel Partners, and IntuiShip. They all happened to be based in Salt Lake City, Utah, just miles away from each other.

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Sept. 11, 2009

BUSINESS FOCUS

EXPANDING THE ART OF THE DEAL
USPS RESELLER PROGRAM BROADENS REACH

The Postal Service has launched a new Resellers Program, creating partnerships with businesses that offer logistics-service support to small package shippers.

Resellers have negotiated prices for Express Mail and Priority Mail services with USPS, which allow them to offer USPS shipping services to their customers or their franchisees at prices that are lower than they could get on their own.

"Typically, end users pay for Express Mail and Priority Mail at prices somewhere between the Postal Service's published retail prices and Commercial Plus Pricing," said Brian Denneny, manager, National Business Alliances. "The new Resellers Program uses the Postal Service's pricing flexibility to open up new sales channels and gain exposure to a wider variety of potential customers — many of whom are now dealing with competitors."

While the Resellers Program gives USPS inroads into many new markets, it also offers a benefit for Postmasters. Because resellers will use PC Postage vendors for postage payment, the revenue generated will be credited to the five-digit ZIP codes where the packages enter the mailstream.

For answers to your questions about the USPS Resellers Program, contact your local Sales group or your District Manager, Customer Relations.

Financial Results that Defy Expectation, and Logic

Stamps.com has been quite the story stock. After languishing in early 2014, the Company embarked on an aggressive acquisition spree that has also magically accelerated organic revenue growth. In fact, Stamps.com has not missed Wall Street's revenue expectations since its acquisition spree began in 2Q14, despite missing revenues for the 3 consecutive quarters before the acquisitions commenced. Even more interesting, the "% surprise" has only grown with time.

The sheer magnitude of Stamps.com's earnings beats make clear that Stamps.com is doing something that is not fully appreciable to investors. Despite being a "software as a service" business that monetizes through a monthly and recurring credit card charge to customers, Stamps.com's financial results appear to exhibit none of the predictable and tight range characteristics that one expects in the world of SaaS stocks.

We think it is worth staring at Stamps.com's "earnings surprise history" over the past several quarters as it tells the tale of a company that was somehow able to use an M&A spree that began c. mid-2014 to turn itself into one of Wall Street's greatest "beat and raise" stories.

STMP EPS & Revenue Surprise History

	Ann Date	Per	End	EPS Surp	Rev Surp	%Px Chg
11)	05/09/2016	Q1 16	03/16	61.20%	17.41%	-5.32%
12)	02/25/2016	Q4 15	12/15	68.82%	18.63%	21.05%
13)	11/05/2015	Q3 15	09/15	27.66%	9.62%	38.10%
14)	08/06/2015	Q2 15	06/15	38.57%	11.49%	27.74%
15)	05/07/2015	Q1 15	03/15	24.57%	7.01%	20.41%
16)	02/11/2015	Q4 14	12/14	17.46%	6.59%	19.46%
17)	11/05/2014	Q3 14	09/14	20.34%	8.61%	13.09%
18)	07/30/2014	Q2 14	06/14	-4.68%	3.37%	-8.32%

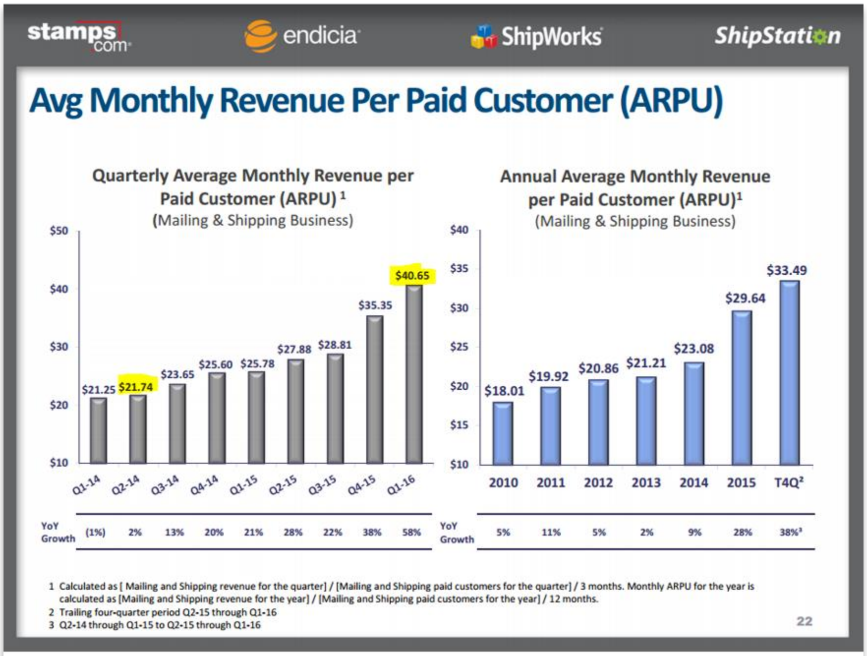
Source: Bloomberg

As an aside, STMP's stock price reaction to its Q1 2016 earnings report is noteworthy. After initially surging 18% on yet another quarter of the "beat and raise" story, Stamps.com ended up closing the day down. Following a number of high profile blow-ups in "beat and raise" story stocks that rely on opaque disclosures designed around a roll-up strategy (i.e. Valeant Pharmaceuticals), investors have grown far more skittish of companies that are not providing full and transparent disclosures to investors and are less willing to blindly buy into fruit "roll-up accounting magic".

Cracking the Nut: How Stamps.com is Printing Money

We focused our research on understanding why Stamps.com's ARPUs have gone through the roof ever since mid-2014, when it initiated an acquisition spree.

So we began with a simple question we thought would expose the truth about Stamps.com's business model: How does a subscription-based company that operates in a competitive and highly promotional environment see its ARPU double in the span of around 18 months?



Source: Stamps.com Company Presentation, May 2016 - Slide 31

Opaque Disclosures Signal Mysterious Change in Revenue Model; Also Signal Something to Hide

We begin by evaluating the revenue disclosures in Stamps.com's SEC filings from the most recent annual period that preceded its acquisition spree. To summarize the below two extracts, in 2013 STMP reported that it collects a monthly fee from subscribers and a small commission directly from the USPS on certain volumes. The volumes that STMP is able to collect a commission on are predominately tied to e-commerce, so it made sense that STMP was reporting moderate ARPU increases over time, as e-commerce volumes had been growing as a percentage of total postage printed.

Per the 2013 10-K:

> *Customers typically pay us a monthly service fee ranging from $15.99 to $39.99 depending on the service plan. In certain circumstances, customers may be on a plan where they do not owe us any monthly service fees. We have an arrangement with the USPS under which if a customer or integration partner prints a certain amount of domestic or international Priority Mail or Priority Mail Express postage, the USPS compensates us directly and the customer can qualify to have their service fees waived or refunded. In addition, we also have plans with service fees less than $15.99 which offer more limited functionality and are targeted at retaining customers who print a lower volume of postage.*

The 2013 10-K also lays out their 5 primary sources of revenue:

> *Our revenue is derived primarily from five sources: (1) service revenue from subscription, transaction and other fees related to our PC Postage services and integrations; (2) product revenue from the direct sale of consumables and supplies through our Supplies Store; (3) insurance revenue from the sale of package insurance to our customers; (4) PhotoStamps revenue from selling sheets of PhotoStamps postage; and (5) other revenue, consisting primarily of advertising revenue derived from advertising programs with our existing customers.*

In comparing STMP's 2013 revenue sources disclosures against those made in its 2015 10-k, which covered the 2 year period STMP had made several acquisitions, we noted that it added 2 new sources of revenue:

> *For service revenue, we earn revenue in several different ways: (1) customers may pay us a monthly fee based on a subscription plan; (2) customers may qualify under our USPS partnership to have their service fees waived or refunded and then we are compensated directly by the USPS; (3) customers may pay us a fee per shipping label printed; (4) we may earn compensation by offering customers a discounted postage rate that is provided to the customers by our partners; and (5) we may earn other types of revenue shares or other compensation from specific customers or partners.*

So, at some point between 12/31/2013 and 12/31/2015, STMP discretely added two new, opaque revenue source disclosures, without much, if any, elaboration or explanation.

Following the thread of opacity, on the Q1 2016 earnings call, management made a vague statement about STMP now having various ways to monetize postage volume. Of course, they gave no further elaboration and not a single sell side analyst asked what they meant.

> Average monthly revenue per paid customer or ARPU was $40.65 in the first quarter and that was up 58% versus the first quarter of 2015. The growth in ARPU benefited from continued growth in the shipping business, including positive contributions from the traditional high volume shipping area, as well as from all of our acquisitions, Endicia, ShipStation and ShipWorks.
>
> Specifically, the growth in ARPU has been driven by the higher ARPU typically associated with higher volume shippers. All three of our acquisitions ShipStation, ShipWorks and Endicia have higher ARPU than our historical average. And also, ARPU is now directly correlated with the postage growth owing to the various ways we are now able to monetize the postage volume. We're pleased with our financial performance and the strength of our business metrics during the first quarter.
>
> *Source: Bloomberg Transcripts 1Q16 STMP*

We believe, as we will show throughout the remainder of the report,

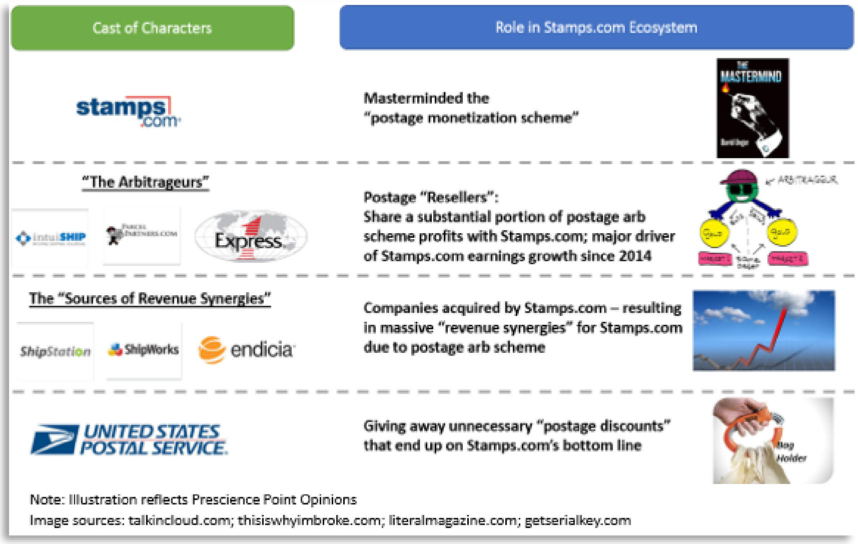
- these two new sources of revenue have driven the lion's share of the company's growth since 2013
- these revenue sources explain why Stamps.com has been so acquisitive for the past several quarters, and why it has payed astronomical multiples for, seemingly, any company with a list of customers that ship online using the USPS
- STMP is purposefully opaque with investors – it has something to hide

The Ecosystem Driving STMP's New Sources of Revenue

Identifying how STMP is generating its numbers (i.e., identifying the entities involved, how they relate to one another and to STMP, understanding the flow of economics, etc etc) has been extraordinarily laborious. The ecosystem behind it all is so complex, with so many moving parts, that it is a doozy to explain, so bear with us! Of course, this complexity is exactly what why long investors have no clue what they actually own and no investor before us has been able to solve the STMP mystery.

To help readers follow along, the schematic at right describes the primary companies involved and our interpretation of their roles in this ecosystem:

- ShipStation, ShipWorks, and Endicia were all acquired by Stamps.com. Finally, there is the United States Postal Service. How they all work and fit together, though, is the issue.
- Express1, IntuiShip, and Parcel Partners are the three companies that we believe currently own the lion's share of the "postage reseller" market



An extensive review of Stamps.com's SEC filings and earnings call transcripts does not give investors any clues as to who these postage reseller partners are, how their business models work, or their relationships (or existence thereof) with STMP, with one exception: a single mention of Express 1 buried in the landfill of STMP's August 7, 2015 10-Q would send us on the journey of reviewing piles and piles of legal filings, eventually leading us to a hard-earned comprehension of the complex world of postal discounts.

> *On August 14, 2014, Rapid Enterprises, LLC, D/B/A Express 1, filed suit against ShipStation and some of its executives in the Third Judicial District Court for Salt Lake County, Utah, alleging, among other claims, that ShipStation breached its contract with Express 1 by violating an exclusivity provision. Express 1 seeks an injunction, damages, attorneys' fees and court costs. On December 12, 2014, Express 1 added additional claims and Stamps.com and our Chief Executive Officer as named defendants.*
>
> *On August 6, 2015, Stamps.com and Express 1 entered into a settlement agreement that resolves all disputes between the parties. Stamps.com agreed to pay Express 1 $10,000,000 in exchange for Express 1's dismissal and permanent withdrawal of Express 1's tort claims. In addition, the parties agreed to continue and expand their business relationship going forward.*
>
> *Express 1 is a sales and support business partner for the United States Postal Service that provides discounted shipping rates and technology solutions to lower volume USPS shippers. Though our partnership with Express 1, Stamps.com and our subsidiaries are able to provide Express 1's shipping discounts to our lower volume customers, and Express 1 is able to utilize our systems and software to better serve its customers.*

Exposing the Relationship Dynamic of the Integral Players

Why would Stamps.com pay Express1, a "partner" that had previously never been disclosed in any filings, a massive $10M settlement = ~18% of LTM EBITDA??? And why was Express1 suing Shipstation for breach of exclusivity? What exclusivity did Shipstation give them?

Searching for the answers to these questions, we combed through hundreds of pages of litigation. There were two lawsuits of focus and through these, we were exposed to the world of USPS resellers and their complex relationships with PC postage providers: Rapid Enterprises (i.e., Express 1) v. Auctane (i.e., Shipstation) and PSI Systems (i.e., Endicia) v. Auctane. We encourage readers to pull both lawsuits and review each of them.

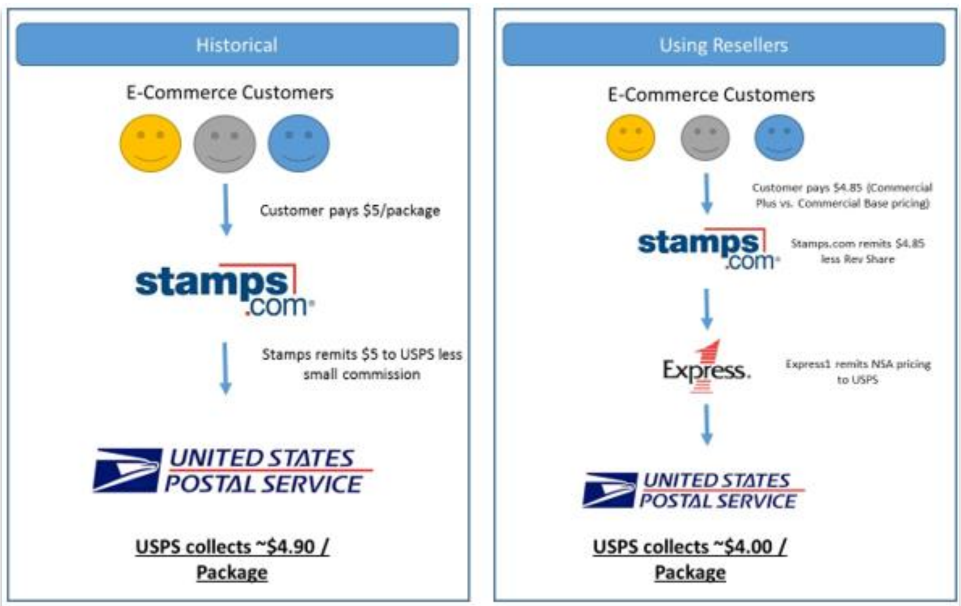
106)	02/09/2015	RAPID ENTERPRISES LLC v. AUCTANE LLC, Docket No. 2015-L-001311 (Ill. Cir. Ct. Feb. 09, 2015), Court Docket
116)	08/11/2014	PSI Systems, Inc. v. Auctane L.L.C., Docket No. 1:14-cv-00750 (W.D. Tex. Aug 11, 2014), Court Docket

STMP Identifies the Revenue Potential of the Reseller Scheme; USPS Left Holding the Bag

Our research has led us to conclude that, as is the case with many other ideas that were generated out of the US government, the entire postage reseller industry is yet another example of a government idea that started off in the right spirit, but has ended up being totally abused.

In what we believe is an act of sheer laziness, the postage resellers that were initially provided with special discounts and tasked with going out to find high volume shippers took a “short cut”. The “short cut” involved letting Stamps.com “borrow” their discounts. The postage resellers found a quick way to avoid doing any work by relying on Stamps.com’s shipping volume to meet USPS quotas. Stamps.com found a way to use its clout and negotiating leverage to extract a substantial piece of the discount economics from the resellers and as a result “created” a whole new source of revenue for its business model. <u>We believe STMP provides only the most opaque of disclosures regarding this newly created revenue source because it does not want to “kill the goose that lays the golden egg,” by exposing the absurdity of this arrangement to the public and to the USPS.</u>

Our analysis/interpretation (depicted in the illustration below) of the relationship between Stamps.com, the USPS, and postage resellers, shows that the USPS is the one left “holding the bag”. The USPS is providing “discounts” that were intended to go to end-customers that ship in high volume but are instead getting gobbled up by tiny postage resellers and Stamps.com. In this way, the USPS is effectively losing revenues by allowing Stamps.com to arbitrage postal rates. In our illustrative example, instead of collecting the $4.90 it should have been collecting per package, by inserting the reseller, the USPS only collects $4.00 for a package the seller was already going to send via USPS.

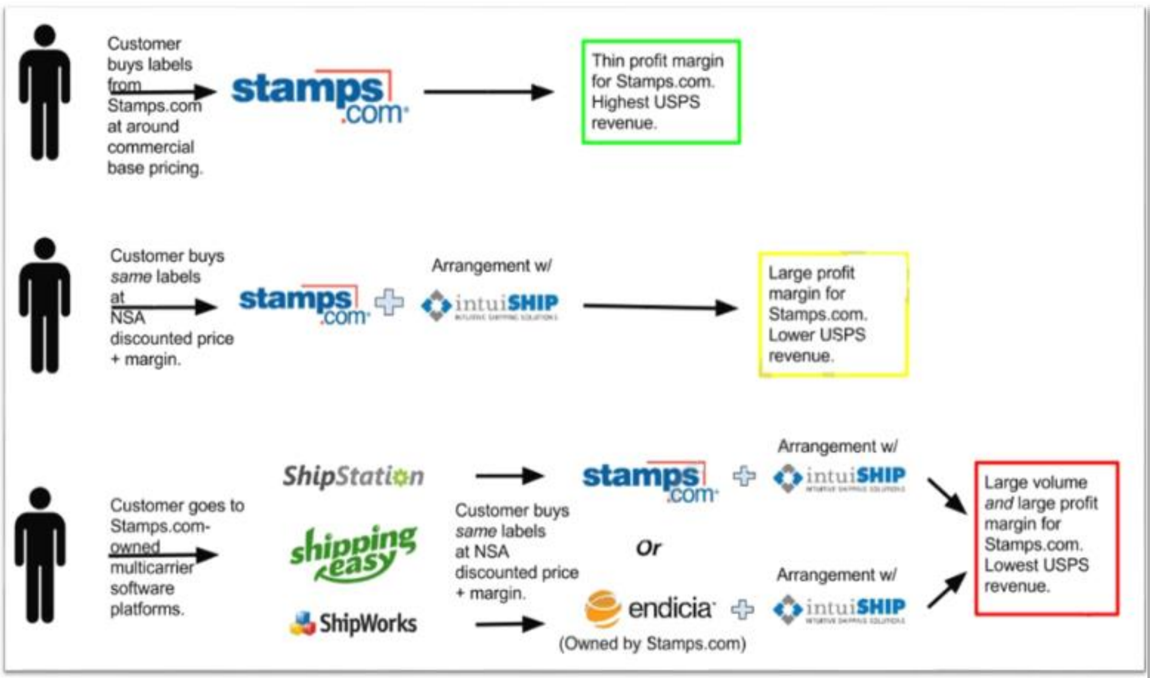


Note: Illustration reflects Prescience Point Opinions

Same shipper. Same set of packages. Same volumes. The only difference is that by inserting a reseller into the value-chain, the reseller and Stamps.com are able to take a significant chunk of the revenues that the USPS should have been collecting. Stamps.com has effectively found a way to supercharge its growth at the expense of the USPS – in our view, without creating any value whatsoever for the USPS.

STMP Puts the Revenue Scheme on Steroids, Becomes Serial Acquirer of Multi-Carrier Shipping Platforms

We believe that in realizing the revenue potential of this scheme at some point in 2014, STMP began agressively acquiring multi-carrier shipping platforms (i.e., ShipStation, ShipWorks, and now Shipping Easy) so that it could push more and more volume into the postage reseller schemes. The more volume pushed through the reseller, the more revenue for STMP. In doing this, Stamps.com is able to skim more and more revenue off the USPS, as depicted in the illustration below. In turn, the USPS is leaving money on the table, as the volumes that Stamps.com is bringing to the USPS are not incremental, but simply just a reclassification of the same volumes the USPS was already seeing.



Source: The Capitol Forum. *Stamps.Com: Government Contracts Weekly: Examination of Third-Party NSAs' Role in Stamps.com Revenue; Neustar Appeal Hearing Scheduled for Sept. 13; Updates on ICANN Transition and FirstNet.* 2016. 12 July 2016.

More Steroids: STMP Allegedly Uses New-Found Negotiating Leverage to Extort Reseller Partners

Based on our analysis, not only is Stamps.com acquiring shipping companies in order to run the acquired postage volumes through the reseller network, it also began allegedly using its newfound negotiating leverage (derived from essentially rolling up the entire shipping industry) to "extort" the reseller industry. In the deposition extracts presented below, Express1 (referred to as Mr. Clark) felt extorted after Stamps.com bought Shipstation. Clark accused Stamps.com of trying to "extort" a larger chunk of economics out of Express1, and then ultimately moving its business away from Express1 to a different reseller, one that we believe agreed to give STMP a larger percentage reseller discount revenue sharing arrangement.

10:28:28 Q. Then the next sentence he says, "Now that your deal is
10:28:31 done, I somewhat feel that I'm being extorted. To what? Just
10:28:36 to keep you to honor the agreements we already have in place."
10:28:39 Do you see that?
10:28:40 A. Yes.
10:28:40 Q. Mr. Clark felt extorted by having to do essentially some
10:28:45 of the terms in the amendment to his agreement, the 50-50 split
10:28:51 that he refers to below and the 7 cent increase for the switch
10:28:55 to Endicia to Stamps?
10:28:57 A. Yes. Well, you know, I should clarify my answer on that
10:29:00 one.
10:29:00 Q. That's what he wrote to you, sir.
10:29:03 A. Well, he was perfectly fine with giving us the 7 cents.
10:29:07 He didn't feel like he was being extorted for that. He was
10:29:10 responding to the additional 8 cents that we're talking here
10:29:15 and us not agreeing to certain terms that he wanted attached to
10:29:18 that 8 cents.

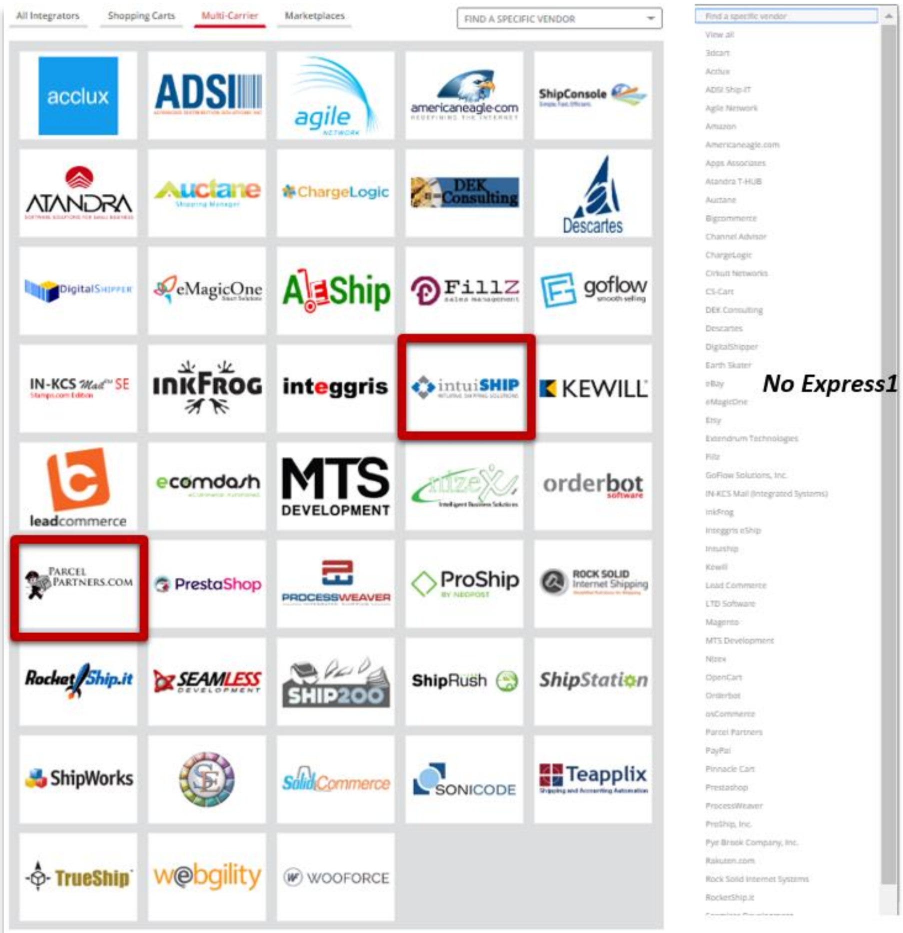
Source: *PSI Systems, Inc. vs. Auctane LLC; Docket Number: 1:14-cv-00750.*
Testimony of Jason Hodges, CTO of ShipStation

The above deposition references a 50/50 revenue split between Express1 and Stamps.com. Referring back to our earlier illustrative example, this would mean that by using Express1, Stamps.com would collect ~42.5c of revenue per package instead of the 10c if it printed the label directly from the USPS. That is a 4x increase in postage monetization for Stamps.com! Now the ARPU increases are starting to make sense. Based on our analysis, Stamps.com has truly masterminded a way to maximize the amount of revenue it is extracting from the USPS.

Enter IntuiShip

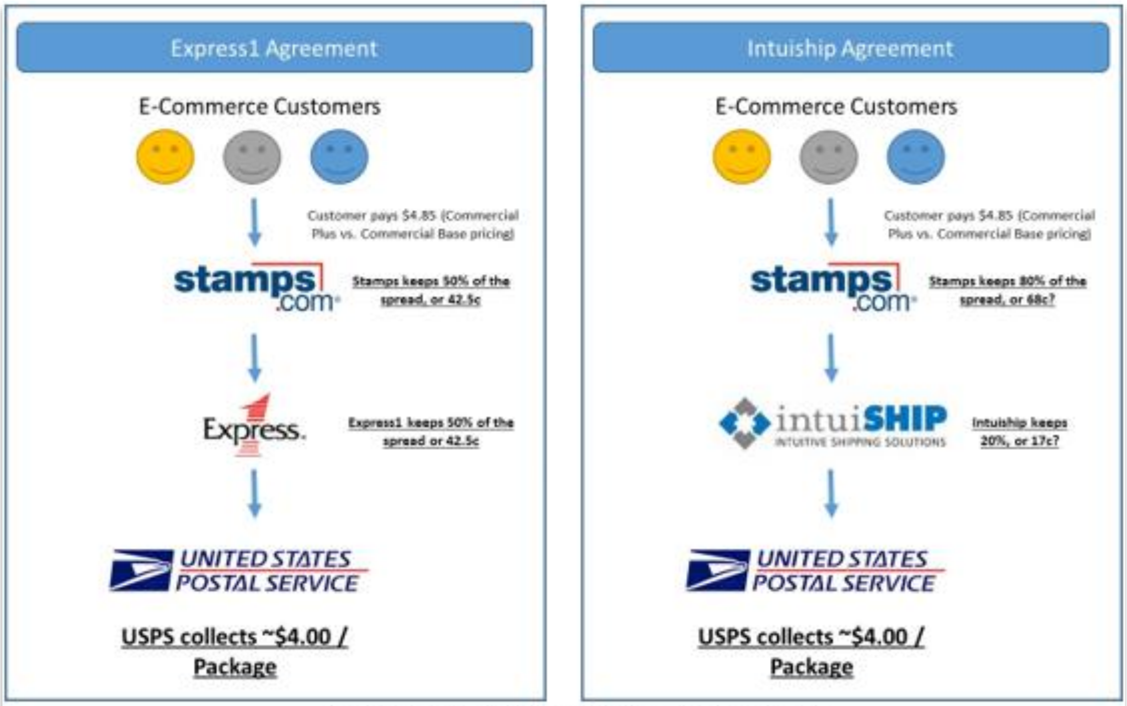
Based on our review of the aforementioned litigation and our investigation into Stamps.com's current integration partnerships, we believe that Stamps.com ultimately materially reduced its relationship with Express1, and switched a significant chunk of its previous Express1 volumes over to a company called IntuiShip. We suspect that this switch was driven by economic motivations, given that Express1 appears to have been unwilling to fork over a larger revenue share to Stamps.com (based on the deposition cited above) and given that Stamps.com ultimately settled its breach of contract lawsuit with Express1 to the tune of $10 million.

Our suspicion is bolstered by the lack of any mention of Express1 on Stamps.com's current "Integration Partners" page. However, Stamps.com lists both IntuiShip and Parcel Partners, the two other Utah based USPS resellers, as key integration partners on its website (refer to screen clipping below).



By switching integration partners from Express1 to IntuiShip, we believe that Stamps.com was able to further monetize postage volumes by extracting a larger share of the “reseller discount” out of IntuiShip than it was previously receiving from Express1. In the illustrative example below, changing the revenue share % that Stamps.com collects has a dramatic increase on monetization. **For example, if Stamps.com now gets 80% from IntuiShip instead of the 50% it received from Express1 previously, it can increase its monetization to 68c per package vs. the 42.5c we suspect it received from Express1 and the meager 10c it would have received had it continued to work directly with the USPS**.

Stamps.com is happy because it now collects 7x the monetization it would have received had it been working directly with the USPS. IntuiShip is happy because, without doing an ounce of work, it is collecting 20% of the spread for volumes it would not have gotten without its relationship with Stamps.com and can play golf all day. This arrangement would also permit IntuiShip to maintain its volume requirements that it is contractually obligated to provide to the USPS in order to maintain its reseller license. Express1 is happy because its less than handful of key employees received a $10M settlement check from Stamps.com. **The USPS, and with it the US taxpayer, remains the only loser in a program it created to be the winner.**



Note: Illustration reflects Prescience Point Opinions

To further drive their ability to collect revenue share arrangements with these resellers, Stamps.com has embarked on additional acquisitions (Shipstation, Shipworks, Endicia and now ShippingEasy) where the company is paying extremely high valuations (often in the range of 5x-10x revenues) for what we believe are barely profitable companies. On face value, none of the acquisitions Stamps.com has done make much economic sense from a valuation perspective. Yet, after Stamps.com makes these acquisitions, margins just go up and up. We believe that Stamps.com is running all of these acquired volumes through IntuiShip in order to create significant revenue synergies that allow them to pay such high multiples for these companies.

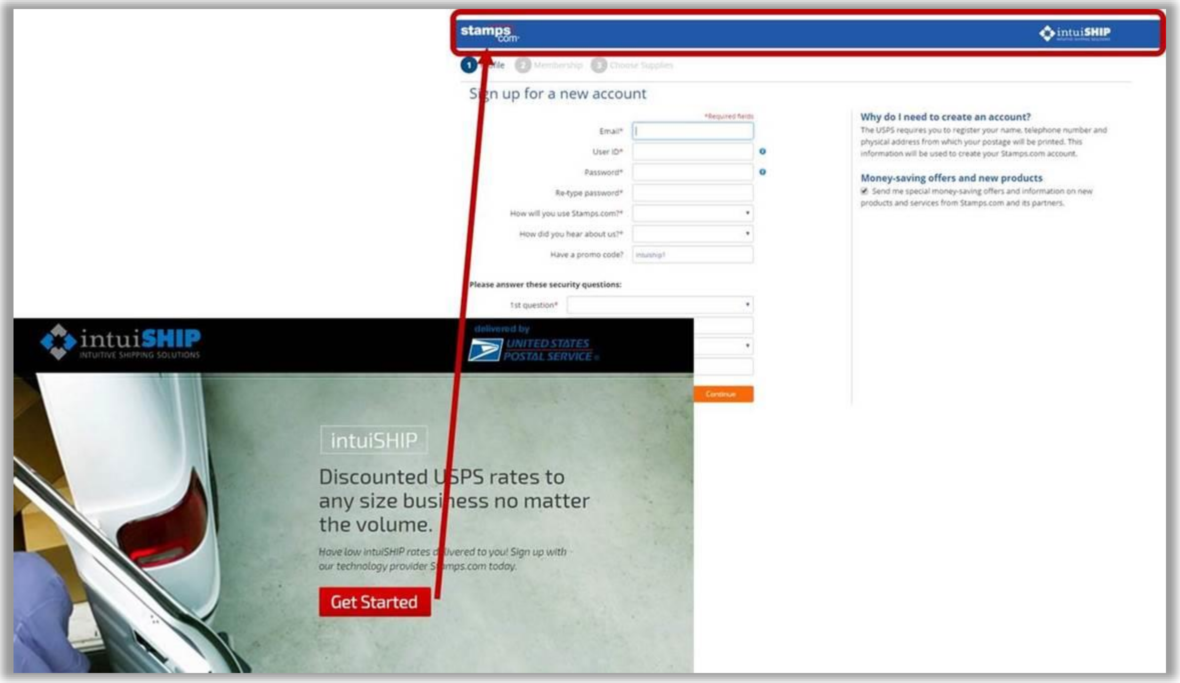
However, there is a major flaw in this argument. The USPS already gave Stamps.com a highly, highly valuable contract. Let's be completely clear: without their USPS contract, Stamps.com does not have a business model. Stamps.com is one of three companies that have a PC Postage license and after acquiring Endicia, one of two companies. Stamps.com is already highly incented to drive volumes to the USPS because it's their only partner. That is why the USPS pays Stamps.com a small commission on Priority Mail volumes. We think Stamps.com has found a loophole to monetize postage that could go away with the stroke of a pen.

STMP and IntuiShip: One and the Same?

In a vein similar to VRX and Philidor, no one has ever talked about IntuiShip in the same conversation as Stamps.com despite the fact that the two companies appear to be joined at the hip. In fact, IntuiShip and Stamps.com are so closely tied that we have to wonder if they are not just the same company. However, we think that Stamps.com has gone out of its way to maintain accounting separation from IntuiShip because it does not want to draw attention to its reseller discount scheme. (Drawing more attention to this scheme is likely to cause the USPS OIG to look much deeper into the value of these reseller arrangements and where the dollars are flowing.)

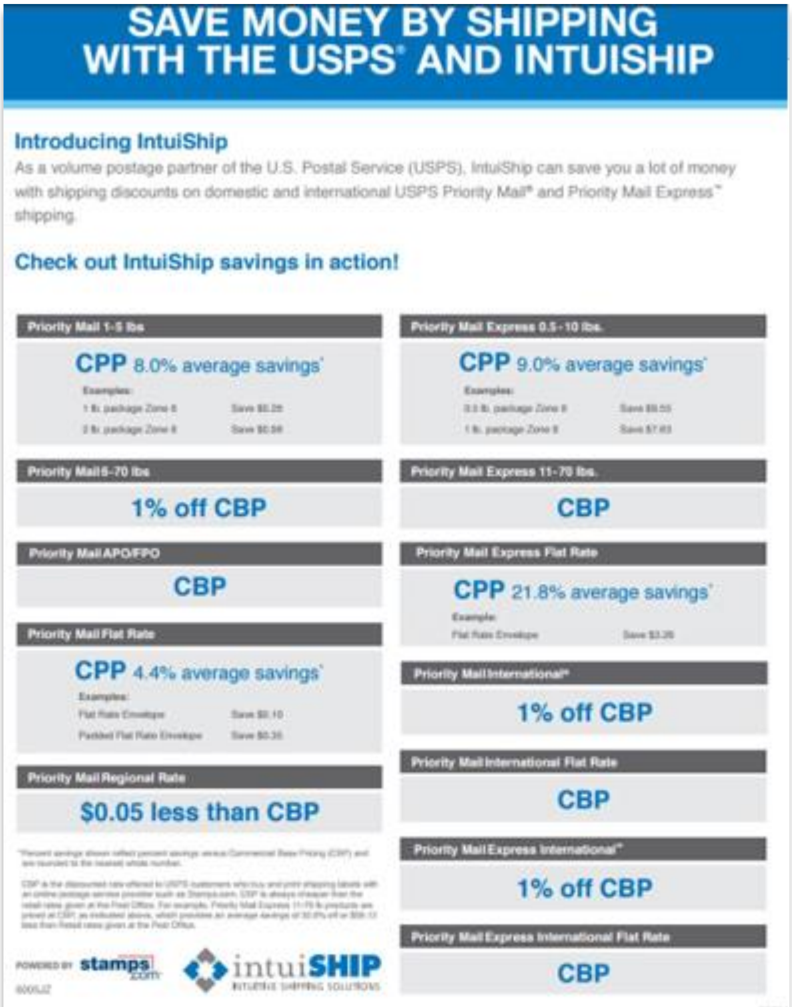
For the following 3 reasons, we think that IntuiShip may very well just be a front for Stamps.com and a means for Stamps.com to tap into lucrative USPS volume discounts without drawing attention to itself:

1. we note that when you attempt to sign up for an IntuiShip account, you are merely redirected to a Stamps.com landing page with a Stamps.com domain name:



Source: http://www.IntuiShip.com/usps and Stamps.com website

2. we note that Stamps.com and IntuiShip **cobrand their volume shipping discount materials**, strongly suggesting that Stamps.com and IntuiShip's business relationship goes far beyond a "partnership". We think that Stamps.com is simply "borrowing" IntuiShip's legacy NSA contract rates in order to skim revenues:



Source:
http://www.proshipsoftware.com/sites/proshipsoftware.com/files/Flyer_IntuiShip_USPS.pdf?utm_source=ProShipPartner&utm_medium=web&utm_campaign=stampsOffer15

3. Finally, further cementing our view that IntuiShip and Stamps.com essentially operate "as one", we again cite the following quote from The Capitol Forum's note:

> ***"[W]e spoke with an IntuiShip employee who stated that <u>IntuiShip does its entire domestic small parcel shipping through Stamps.com</u>"***
>
> Source: Capitol Forum report 7/8/16

The Reseller Program NSAs Benefiting STMP are at High Risk of Cancellation

As demonstrated in this report, the USPS is the only loser in a program it created for its own benefit, and thereby the benefit of the US taxpayer. So, readers naturally must be wondering why the USPS allows this scheme to continue. We believe the USPS is not fully aware of the extent of the postage reseller scheme, and that as a result of our exposure of the matter, the USPS will put an end to it.

The USPS Does Not Want STMP to Monetize Postage in this Way

We think the below voicemail left by Colby Clark of Express1 for Jason Hodges of ShipStation explains why Stamps.com has been so secretive about the incremental revenue stream it derives from the reseller scheme. **Because the USPS doesn't want them to be doing this!** The voicemail below clearly states that Express1 gave a promise to a VP of the USPS that they wouldn't work with Stamps.com to provide STMP discounts.

> "Jason, Hey. It's Colby. I apologize for not responding to your e-mail last evening. I got caught up at a baseball game. Anyway, give me a call. Definitely open to getting all those extra Stamps meters and to talk to you also about swapping out back ends of existing customers on a confidential basis and couple of other items. As you know, I have issues with the reseller platform from Stamps because of an internal promise that I gave to a VP at Postal, but we can talk about that. Feel free to give me a call today. I've got people in from Manhattan, but I can step out as necessary. Thank you."

Source: *Source: PSI Systems, Inc. vs. Auctane LLC; Docket Number: 1:14-cv-00750; Voicemail left by Colby Clark of Express1 for Jason Hodges of ShipStation*

From another angle, if the USPS would allow it, wouldn't you think that STMP would pursue its own USPS NSA, enabling it to collect the entire spread (as opposed to having to split it with IntuiShip)? Conversely, if the USPS wanted Stamps.com to be monetizing postage in this way, we would think it would grant STMP an NSA to collect the spread for itself.

We think it's obvious that the USPS does not want STMP to be monetizing postage in this way; yet, STMP is. For this reason, we are of the belief the USPS would act to shut down STMP's access to the postage arb scheme, if it were made aware of it existed.

Postage Reseller NSAs are Being Abused to Cannabilize USPS Volumes

Postage resellers industry has no reason to exist in our view, and may not for long:

- In 2013, the USPS Office of Inspector General reviewed domestic NSAs and concluded that it is inconclusive if NSAs are actually beneficial to USPS, and, subsequently, tax payers.

Conclusion

Our review of nine NSAs, which collectively reported more than [redacted] in revenue to the PRC for FY 2011,[8] revealed the agreements generally resulted in mail volume and revenue increases. We confirmed that the Postal Service validated mail volumes reported by customers against its own data sources before entering into an NSA. However, we could not determine whether the increases in revenue and volume were a direct result of incentives offered by the agreements or whether mailers would have increased their mailing activity regardless of the incentives. In addition, the Postal Service did not always use accurate data to calculate rebates and discounts, which resulted in $1.2 million in incorrect and questionable customer rebates and quarterly price adjustments. See Appendix B regarding our monetary impacts. Further, the data reported to the PRC did not always agree with the amounts the Postal Service used to calculate discounts and rebates. Finally, the Postal Service does not have specific criteria governing retention of NSA data. We also noted another matter related to the statutory requirement that agreements cannot cause unreasonable harm to the marketplace.

Source: https://www.uspsoig.gov/document/domestic-negotiated-service-agreements

- Since this 2013 assessment, as we have thoroughly laid out in this report, things have gotten a lot worse. Our analysis indicates reseller NSAs are being used to profit at the USPS expense. We should note our belief that Stamps.com is equally complicit in this scheme, which as we've shown results in the cannibalization of USPS volumes. Based on our analysis, we have formed the view that Stamps.com has become the power player in the abuse of reseller NSA contracts, enabled further by the negotiating leverage bestowed upon it by its acquisition spree. Regardless of who is to blame, we believe **neither the postage resellers nor Stamps.com are creating any incremental revenue for the USPS**.

The USPS has the Right to exit any NSA contract with only 30 days' notice

The USPS has the right to exit any NSA contract with only 30 days' notice. If the USPS is a responsible steward of tax payer money, it will do the right thing and do away with the Utah reseller program that is enriching only the few lucky participants in this postage reseller scheme that Stamps.com has manipulated.

III. Expiration Date

This contract shall expire three years from the effective date, unless (1) terminated by either Party with 30 days notice to the other Party in writing, (2) renewed by mutual agreement in writing, (3) superseded by a subsequent contract between the Parties, (4) ordered by the Commission or a court, or (5) required to comply with subsequently enacted legislation.

Source: http://www.prc.gov/docs/63/63860/Request%20PM%20contract%2017.pdf

Below are a few key quotes from the Capitol Forum's report, released last week, entitled, "Stamps.com: Reliance on Negotiated Service Agreements with USPS, Relationship with IntuiShip Leaves Stamps.com with Significant Regulatory Risk; USPS Can Terminate NSA with 30 Days' Notice if Agency Finds Abuse."

- "Mr. Klingenberg did note, however, that the USPS would find fault with a reseller if it were cannibalizing USPS business and that the agency could terminate a given NSA with a reseller with thirty days' notice to the counterparty."
  - *Source: J.P. Klingenberg the Deputy Director of the Postal Regulatory Commission's Office of Accountability and Compliance; Capitol Forum Report 7/8/16*
- "According to an employee of Parcel Partners, postage resellers do cannibalize existing USPS customers, and there is nothing preventing those shipping resellers from offering existing USPS customers discounted rates."
  - *Source: Capitol Forum Report 7/8/16*
- "[W]e spoke with an IntuiShip employee who stated that IntuiShip does its entire domestic small parcel shipping through Stamps.com"
  - *Source: Capitol Forum Report 7/8/16*

Even if the USPS Doesn't End the Reseller Scheme, it is Still Likely to Fade Away in 2017

Even if the USPS doesn't get rid of these resellers right away, the USPS has started putting plans in place that are going to significantly limit these resellers value into the shipper marketplace. The entire reason why shippers would want to use IntuiShip or why Stamps.com likes to partner with IntuiShip (other than the revenue share arrangement) is that IntuiShip can offer Commercial Plus pricing to anyone, irrespective of the shipper's volume. These rates are 3-8% lower than that of Commercial Base pricing, which is what Stamps.com can offer its customers if it does not use a reseller.

But perhaps the most damning piece of information out there to the postage reseller industry is that the USPS is considering getting rid of the Commercial Plus category at some point in 2017. This would effectively get rid of the reseller arbitrage scheme because there would be only one set of commercial rate tables available to companies such as postage resellers. That would mean that in order to get a discount, high volume shippers would get their own NSA agreement from the USPS, cutting out the Utah-based resellers and would deliver a crushing blow to Stamps.com's key revenue stream.

> The Commercial Plus price category has traditionally offered even lower prices to large-volume customers. New for January, Commercial Plus prices as a whole will receive a 13.3 percent increase in order to bring these prices within three percent of Commercial Base prices. The Postal Service's long term goal is to eliminate the Commercial Plus category at some point in 2017 to reflect the industry standard of publishing only one set of commercial rate tables. Deeper discounting may still be made available to customers through negotiated service agreements.
>
> *Source:* https://www.prc.gov/docs/93/93564/Notice%20CP2016-9.pdf

At a minimum, the very high value shippers at Stamps.com will cut out IntuiShip and get their own discount from the USPS, putting significant pressure on this stream of earnings. There is also a significant chance that getting rid of commercial plus pricing also leads to the USPS getting rid of these reseller arrangements altogether.

We note that even Stamps.com has subtly acknowledged the risk of its business model imploding in the event the USPS does away with what we view as economically nonsensical discount arrangements.

In March 2014, Stamps.com added the following highlighted language into its risk factor disclosures in its 10-K:

> ***The USPS could modify or terminate discounts our customers receive.***
>
> *The USPS could decide to amend or terminate the discounts our customers and integration partners receive. Customers using our services receive discounted postage rates, either from Stamps.com or from integration partners that provide discounted rates, compared to USPS retail rates on certain mail pieces such as First Class letters and packages, domestic and international Priority Mail and Priority Mail Express packages, and other discounts available to high-volume shipping customers. If the USPS decides to withdraw certain discounts or even remove the discounts entirely, our revenue and operating results will suffer. If the Postal Regulatory Commission decides the discounts are unlawful and require the USPS to cancel or change them, then our revenue and operating results would suffer.*
>
> *[Highlighted language added in March 2014]*

The use of the term "unlawful" is noteworthy. As astute readers of financial statements will appreciate, heavily lawyered risk factors in SEC filings are carefully vetted. Therefore, we take the use of the term "unlawful" to mean that Stamps.com itself acknowledges that its activities are akin to loophole exploitation and fraught with risk.

Given the aforementioned notice from the Postal Regulatory Commission suggesting that the USPS intends on doing away with commercial pricing discounts starting in 2017, we believe that this risk factor disclosure is an ominous sign of earnings impairments on the horizon for Stamps.com.

We Estimate STMP is at Risk of Losing >60% & >25% of EBITDA and Revenue, Respectively

Through two different methodologies, we took a stab at quantifying just how much the postage discount and associated partner revenue share are worth for Stamps.com's business model.

Methodology #1 - ARPU Growth

One simple way to triangulate to these figures is to just look at the ARPU growth at Stamps.com and parse out the unexplained portion. The monthly subscription fees associated with Stamps.com and all of the companies it has acquired are readily available through internet searches. For example, the most popular plan on ShipStation costs around $65/month. We also know from the company's own SEC filings that the change to its revenues – and "postage monetization scheme" – only appear to have begun hitting the numbers starting in FY2014. Therefore, we simply "bridged the gap" between the reported ARPU in 1Q14 and the reported ARPU in 1Q16, in an effort to determine how much of the ARPU lift came as a result of the postage monetization scheme.

		Q1 2014	Q1 2016	Calculation	Notes
A	Average Membership	480	641		Ending membership reported every quarter
B	Stamps.com Members (Est.)	480	529		Assume 5% annual growth
C	Endicia Members (Est.)		79		145K gross members added in Q4 vs. 67k added in Q3. Difference assumed to be Endicia
D	Shipstation / Shipworks Members (Est.)		33	A - B - C	Plug between Actual and calculated
E	Stamps.com ARPU (Est.)	15.99	15.99		Reported on website
F	Endicia ARPU (Est.)		15.95		Reported on website
G	Shipstation / Shipworks (Est.)		65.00		Reported on website as most popular plan
	Calculated ARPU	**15.99**	**18.50**	B/A*E*3+C/A*F*3+D/A*G*3	Calculated based on Membership
	Reported ARPU	**21.45**	**40.65**		Reported in filings
H	Subscription Revenue from ARPU	23	36		Membership multiplied by ARPU
I	Other Revenue	8	13		Other revenue includes insurance, store supplies, etc reported in financials
J	Unexplained Revenue (Implied Postage Monetizatior	**3**	**34**	K - I - H	Plug between calculted subscription revenue, other revenue and reported revenue
K	Total Reported Revenue	33	82		Reported Revenue
L	**Postage Monetization as % of Total Revenue**	**7.9%**	**41.0%**	J / K	Unexplained Revenue / Total Revenue
M	Mail Postage	144	182	(B+C)*300	Assumes $300/customer/quarter in mail postage, similar to levels in 2010
N	Monetizable Postage	248	1,047	O - M	Plug between calculated mail postage and reported postage
O	Total Postage	392	1,229	Reported	Reported Every Quarter
P	**% Monetization (% of Postage Printed)**	**1.1%**	**3.2%**	J / N	Unexplained revenue divided by monetizable Postage
	Impact to Stamps.com				
Q	Current Postal Monetization		3.2%		
R	Q1 2014 Postal Monetization		1.1%		
S	**Differential in Postal Monetization**		**2.1%**	Q - R	
T	Monetizable Postage		1,047		
U	**Revenue Impact at Q1 2014 Postal Monetization Rates**		**(22)**	T * S	
	% of Q1 2016 Revenues		***27%***		
V	Incremental Margin on Change in Monetization Rate		100%		No costs associated with change in monetization
W	**EBITDA Impact at Q1 2014 Postal Monetization Rates**		**(22)**	T * S * V	
X	***% of Q1 2016 EBITDA***		***65%***		

Note: Table reflects Prescience Point estimates and research opinions
Sources: STMP SEC filings and Prescience Point estimates, unless otherwise noted in the Notes column

Methodology #2 – Revenue Growth

Another simple way to triangulate to these figures is to look at the revenue growth at Stamps.com and parse out the unexplained portion. By assuming run rate revenue growth estimates for Stamps.com's legacy business, ShipStation/ShipWorks, and Endicia based on Stamps.com's SEC filings and investor presentations, we can arrive at an unexplained revenue estimate representing Stamps.com USPS NSA revenues (26% of the total Stamps.com revenues in 1Q16). By applying this same mix (26%) to our estimate of Endicia's 1Q16 revenues, we arrive at an estimate of $21M of total USPS NSA revenues for Stamps.com in 1Q16, which equates to 61% of Stamps.com's total 1Q16 Adj. EBITDA.

STMP USPS NSA Exposure ($ 000)	1Q13	1Q14	1Q15	1Q16	Notes
A) STMP's Legacy Business	$31,070	$32,249	33,861	35,555	Estimate based on historical growth
% Growth		*3.8%*	*5.0%*	*5.0%*	
B) Shipstation/Shipworks Revenue			5,330	7,533	See "1Q16 ShipStation / Shipworks Estimated Revenue Contribution" for assumptions
C) Endicia Revenue - Includes NSA Revenues			0.0	20,164	See "1Q16 Endicia Estimated Revenue Contribution" for assumptions
Unexplained Revenues (Implied STMP USPS NSA Revenues)			3,863	15,921	= D – A – B – C
D) STMP Mailing & Shipping Revenues		**$32,249**	**$43,054**	**79,172**	Reported by STMP
Total STMP Revenues		**$33,298**	**$44,052**	**$81,837**	Reported by STMP
Total STMP Adj. EBITDA		**$9,111**	**$13,333**	**$34,750**	Reported by STMP
Implied USPS NSA Revenues - STMP			$3,863	$15,921	
% of Total Revenues Ex. Endicia			*9%*	*26%*	
Implied USPS NSA Revenues - Endicia				5,205	
% of Total Endicia Revenues				*26%*	Assumes Endicia's USPS NSA revenues mix same as STMP; conservative assumption - Endicia's higher mix towards shippers
Total Implied NSA Revenues			**$3,863**	**$21,126**	Conservative assumption - assumes ShipStation/ShipWorks USPS NSA revenues captured in STMP or Endicia's "backend"
% of Total Revenues			***9%***	***26%***	
% of Total Adj. EBITDA			***29%***	***61%***	NSA revenues are 100% margin (all pricing)

Note: Table reflects Prescience Point estimates and research opinions
Sources: STMP SEC filings and Prescience Point estimates, unless otherwise noted in the Notes column

It is likely our analyses is highly conservative given 1) allocating ShipStation/ShipWorks USPS NSA revenues to Stamps.com and, thus, excluding potential ShipStation/ShipWorks USPS NSA revenues 2) assuming Endicia's USPS NSA revenue mix is equal to Stamps.com, which is highly conservative given Endicia's focus on shippers.

Below is backup analysis for our 1Q16 revenue contribution assumptions for ShipStation/ShipWorks and Endicia based on Stamps.com SEC filings and investor presentations.

1Q16 ShipStation / Shipworks Estimated Revenue Contribution		Notes
CY13 ShipStation / Shipworks Revenue	$9,807	STMP pro-forma filings CY14 10K
CY14 ShipStation / Shipworks Revenue	$13,861	Estimate based on STMP filings pro-forma filings CY14 10K
% Growth Y/Y	*41%*	
CY15 ShipStation / Shipworks Revenue Estimate	$19,590	Estimate based on CY13-CY14 Y/Y growth rate
% Growth Y/Y	*41%*	
(*) 1Q15 Seasonality Adjustment	*27%*	Estimate based on seasonality analysis
= 1Q15 ShipStation / Shipworks Revenue Contribution Estimate	**$5,330**	
CY16 ShipStation / Shipworks Revenue Estimate	$27,687	Estimate based on CY13-CY14 Y/Y growth rate
% Growth Y/Y	*41%*	
(*) 1Q16 Seasonality Adjustment	*27%*	Estimate based on seasonality analysis
1Q16 ShipStation / Shipworks Revenue Contribution Estimate	**$7,533**	

1Q16 Endicia Estimated Revenue Contribution		Notes
CY14 Endicia Revenue	$58,513	STMP 8-K/A 2/3/16
CY15 Endicia Revenue	$66,060	Estimate based on STMP pro-forma filings CY15 10K
% Growth Y/Y	*13%*	
CY16 Endicia Revenue Estimate	$74,115	STMP growing 40% ex. Endicia; per 5/26/2016 STMP Conference Presentation
% Growth Y/Y	*12%*	
(*) 1Q16 Seasonality Adjustment	*27%*	Assumes Endicia seasonality is the same as STMP
1Q16 Endicia Revenue Contribution Estimate	**$20,164**	

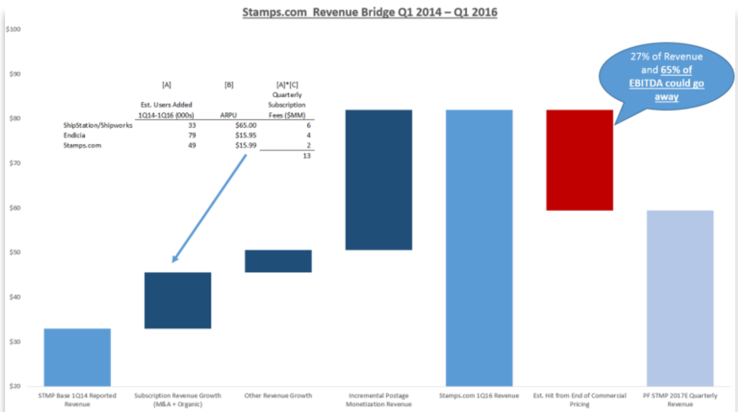
Note: Table reflects Prescience Point estimates and research opinions
Sources: STMP SEC filings and Prescience Point estimates, unless otherwise noted in the Notes column

Two separate sets of conservative analyses show >60% and >25% of Stamps.com's 1Q16 EBITDA and revenues, respectively, have come from the postage arbitrage scheme we identified earlier. What is most notable about this is that there are obviously no expenses against this scheme. **These are arbitrage profits that should flow through at 100% margins.**

Therefore, extrapolating our analysis to EBITDA, we believe that ~65% of 1Q16 EBITDA came as a result of the postage monetization scheme. In other words, most of Stamps.com's earnings growth has come as a result of the company finding an ability to monetize postage.

Why is this a problem? Because we believe this is a very low quality earnings stream that the USPS itself has publicly acknowledged should go away starting in 2017. In our view, this earnings stream should never have existed, as it is merely Stamps.com having found a way to arbitrage the USPS. Once the USPS gets wiser on this practice and begins to review its discount price offerings, we believe that this earnings stream could simply vanish.

We prepared the bridge below to show the impact to Stamps.com revenue if the USPS does in fact do away with the postage arbitrage scheme beginning in 2017:



Note: Table reflects Prescience Point estimates (refer to embedded table)
Sources: STMP SEC filings, CapitalIQ, Prescience Point estimates

We See at Least 80% Downside in Stamps.com Share Price

We think shareholders of Stamps.com are ascribing a gigantic multiple to an earnings stream that could easily vanish next year – **and that the USPS has publicly acknowledged *should* vanish next year.**

From a valuation perspective, we are quite challenged at how to value a company that could lose ~65% with a simple 30 days' notice. Though Wall Street views Stamps.com as a "play on e-commerce," we conservatively apply Bloomberg Consensus EBITDA multiples for Pitney Bowes (PBI) and Neopost (NEO) to a discounted Stamps.com CY17 EBITDA figure based on 1) Stamps.com's current Bloomberg Consensus EBITDA estimates 2) the potential EBITDA discount if the USPS NSA contracts were to be reconstructed. Stamps.com, PBI, and NEO are all exposed to the same end-markets; however, it may not be fair to apply such a high multiple (6.1x forward EBITDA) to an unstable earnings stream. As such, our price target could prove to be conservative.

Adjusting out the portion of earnings that we view as likely to go away should the USPS restructure its pricing program, we arrive at a target price for Stamps.com of $15/sh, reflecting >80% downside from current levels.

STMP Price Target ($M)		**Notes**
CY17E EBITDA	$149.5	7/12/2016 Bloomberg Consensus
% of EBTIDA from USPS NSA contracts	*65%*	See Revenue Share Quantification Methodologies
CY17E EBITDA - adjusted for the cancellation of USPS NSA revenues	$52.3	
Pitney Bowes (PBI) PBI CY17 EBITDA Multiple	6.5x	7/12/2016 Bloomberg Consensus
Neopost (NEO) FY18 EBITDA Multiple	5.7x	7/12/2016 Bloomberg Consensus - FYE January
Average CY17 EBITDA Multiple	6.1x	
Enterprise Value	$317.1	
Cash	$119.8	STMP 1Q16 10Q
Debt	$160.7	STMP 1Q16 10Q
Equity value	$276.2	
Diluted shares	18.7	STMP 1Q16 10Q
Price Target	**$14.80**	
% From Current Price	***-80%***	

Note: Table reflects Prescience Point estimates and research opinions
Sources: STMP SEC filings and Prescience Point estimates, unless otherwise noted in the Notes column