

ValueInvestor

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INSIGHT

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You added VeriSign [VRSN], a stock Berkshire Hathaway has owned since 2012, to your portfolio earlier this year. Describe what attracted your interest.

Anthony Philipp: This is a company we've followed for some time, with a straightforward and attractive business model. It has exclusive registry rights for two of the world's most popular top-level Internet domains, .com and .net, granted under renewable contracts with the Internet Corporation for Assigned Names and Numbers [ICANN], in concert with the U.S. Department of Commerce. Through registrars like GoDaddy or Squarespace, they provide domain names that ensure that when somebody types an Internet address in their browser it connects through the Domain Name System [DNS] to the right numbers-based IP address for the desired destination. VeriSign also runs two of the 13 what are called root servers that are foundational elements of the DNS system. They're responsible for resolving an average of close to 300 billion Internet queries per day.

The contracts enabling all this run for six years, with defined pricing parameters and with a presumptive right of renewal provided VeriSign meets its contractual

obligations. So in assessing the company's prospects you have to have an opinion on demand for .com and .net domain names, and also handicap the likelihood of the contract renewals being made on reasonably favorable terms. When the contracts come up for renewal there can be concern that it won't happen or that

the terms aren't going to be as attractive. That occurred this spring with the pending renewal of the .com contract, and the resulting weakness in the stock gave us an opportunity to buy in at what we thought was an attractive price.

Our basic perspective is that VeriSign has faithfully provided uninterrupted

INVESTMENT SNAPSHOT

VeriSign

(Nasdaq: VRSN)

Business: Global provider of Internet infrastructure and domain-name registry services, which enable Internet navigation for popular top-level domains including .com and .net.

Share Information (@12/30/24):

Price	205.10
52-Week Range	167.04 – 208.03
Dividend Yield	0.0%
Market Cap	\$19.71 billion

Financials (TTM):

Revenue	\$1.54 billion
Operating Profit Margin	68.1%
Net Profit Margin	55.7%

Valuation Metrics

(@12/30/24):

	VRSN	S&P 500
P/E (TTM)	23.8	25.2
Forward P/E (Est.)	24.4	21.9

Largest Institutional Owners

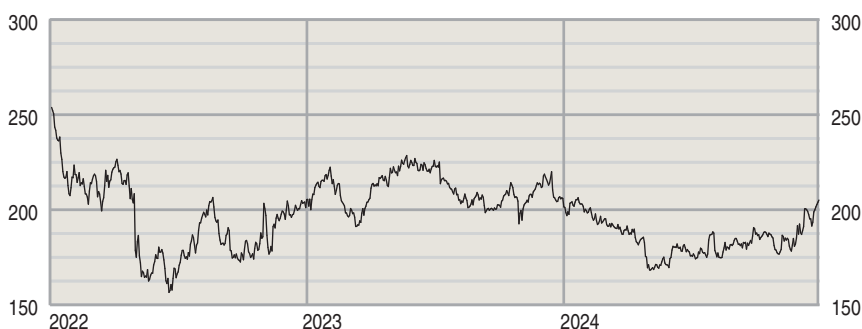
(@9/30/24 or latest filing):

Company	% Owned
Berkshire Hathaway	13.7%
Vanguard Group	10.9%
BlackRock	8.9%
Ninety One UK	4.3%
State Street	4.0%

Short Interest (as of 12/15/24):

Shares Short/Float	1.8%
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VRSN PRICE HISTORY



THE BOTTOM LINE

The company has provided critical services to the functioning of the global Internet system for over 27 years and appears obsessively focused on continuing to deliver against that mandate, says Anthony Philipp.

Sources: S&P Capital IQ, company reports, other publicly available information

DNS services for over 27 years, without any substantive execution issues, security incidents or contractual disputes. That appears to be their obsessive focus and that they've delivered on that is of considerable value to ICANN and the U.S. Department of Commerce for such a mission-critical service to the global Internet ecosystem. It's in everyone's interest to maintain the status quo on terms that provide the company with a reasonable return in doing so. As long as that's the case, you can have a fairly clear view into the company's financial future.

How are you assessing ongoing demand for .com and .net domain names?

AP: ICANN over the past several years has released hundreds of new generic top-level domains for use, but that hasn't created much of a dent in the market shares of either the .com or .net domains. For .com the share remains in the mid -40% range, with .net adding another 3-4%. We're not

expecting the market shares to increase, and to be conservative in our models we assume only 1% annual net growth in the company's domain base.

We don't yet have a firm handle on how the increasing prevalence of artificial intelligence could over the very long-term impact domain-name demand. If anything, over our investment time horizon it's likely a positive, as AI broadly speaking increases the number of digital interactions. Further down the road there might be changes in how people interact with the Internet that could increase or decrease the need for a .com address. Given the small price to pay for a domain name, we think it's a long time before AI has a material effect on VeriSign's business.

The shares have come back nicely from their decline earlier this year. How attractive is the stock at today's price of \$205?

AP: The company has flexibility in the extent to which they take advantage of con-

tractual pricing options, but over our five-year investment horizon we expect them to put through an average mid-single-digit level of annual increases. With modest volume growth, we assume around 6% annual revenue growth coupled with some improvement in operating margin, arriving at an EPS estimate five years out of close to \$14 per share.

They have to invest in hardware, software, security and support to meet and exceed their service commitments, but we expect management to continue to return a significant amount of capital to shareholders through share buybacks. They've repurchased about 30% of the outstanding stock over the last 10 years – a period, by the way, in which Berkshire Hathaway has been a shareholder and seen its stake in the company increase as a result.

As of 31 December 2024, Diamond Hill owned shares of Berkshire Hathaway Inc - Class B, and VeriSign Inc.

The views expressed are those of Anthony Philipp as of January 2025 and are subject to change without notice. These opinions are not intended to be a forecast of future events, a guarantee of future results or investment advice. Investing involves risk, including the possible loss of principal. Past performance is not a guarantee of future results.