

J2 Global Reports Second Quarter 2020 Results

Achieves Record Second Quarter Revenues Announces Share Repurchase Program of up to 10 Million Shares

LOS ANGELES -- J2 Global, Inc. (NASDAQ: JCOM) today reported financial results for the second quarter ended June 30, 2020.

“J2’s outstanding results in an exceptionally challenging environment demonstrate the strength and quality of our business and the dedication of our employees,” said Vivek Shah, CEO of J2 Global. “Our adaptability and focus led to record-breaking revenues, Adjusted EBITDA, and free cash flow for the quarter.”

SECOND QUARTER 2020 RESULTS

Q2 2020 quarterly revenues increased 2.7% to a second quarter record of \$331.0 million compared to \$322.4 million for Q2 2019.

Net cash provided by operating activities increased to \$139.6 million compared to \$95.4 million for Q2 2019. Q2 2020 free cash flow⁽²⁾ increased 35.1% to \$115.9 million compared to \$85.8 million for Q2 2019.

GAAP earnings per diluted share⁽³⁾ increased 21.1% to \$0.80 in Q2 2020 compared to \$0.66 for Q2 2019.

Adjusted non-GAAP earnings per diluted share⁽³⁾⁽⁴⁾ for the quarter increased 7.0% to \$1.71 as compared to \$1.60 for Q2 2019.

GAAP net income increased by 16.9% to \$38.1 million as compared to \$32.6 million for Q2 2019.

Quarterly Adjusted EBITDA⁽⁵⁾ increased 6.1% to \$132.9 million compared to \$125.2 million for Q2 2019.

J2 ended the quarter with approximately \$711 million in cash, cash equivalents, and investments after deploying approximately \$1 million during the quarter in connection with contingent consideration payments for acquisitions from previous years. In addition, J2 deployed approximately \$24 million in respect of its share repurchase program during the quarter.

Key financial results for Q2 2020 versus Q2 2019 are set forth in the following table (in millions, except per share amounts). Reconciliations of Adjusted non-GAAP earnings per diluted share, Adjusted EBITDA and free cash flow to their nearest comparable GAAP financial measures are attached to this Press Release.

	Q2 2020	Q2 2019	% Change
Revenues			
Cloud Services	\$167.1 million	\$169.1 million	(1.2)%
Digital Media	\$163.9 million	\$153.3 million	6.9%
Total Revenue: ⁽¹⁾	\$331.0 million	\$322.4 million	2.7%
Operating Income	\$73.0 million	\$56.6 million	29.0%
Net Cash Provided by Operating Activities	\$139.6 million	\$95.4 million	46.4%
Free Cash Flow ⁽²⁾	\$115.9 million	\$85.8 million	35.1%
GAAP Earnings per Diluted Share ⁽³⁾	\$0.80	\$0.66	21.1%
Adjusted Non-GAAP Earnings per Diluted Share ⁽³⁾⁽⁴⁾	\$1.71	\$1.60	7.0%
GAAP Net Income	\$38.1 million	\$32.6 million	16.9%
Adjusted Non-GAAP Net Income	\$80.6 million	\$77.7 million	3.7%
Adjusted EBITDA ⁽⁵⁾	\$132.9 million	\$125.2 million	6.1%
Adjusted EBITDA Margin ⁽⁵⁾	40.1%	38.8%	3.4%

BUSINESS OUTLOOK

The Company has reinstated full-year guidance and now estimates that for fiscal year 2020 it will achieve revenues between \$1.380 billion and \$1.400 billion; Adjusted EBITDA between \$556 million and \$570 million; and Adjusted non-GAAP earnings per diluted share of between \$7.17 and \$7.41.

Adjusted non-GAAP earnings per diluted share for 2020 excludes share-based compensation of between \$23 million and \$27 million, amortization of acquired intangibles and the impact of any currently unanticipated items, in each case net of tax.

It is anticipated that the non-GAAP effective tax rate for 2020 (exclusive of the release of reserves for uncertain tax positions) will be between 20.5% and 22.5%.

The Company has not reconciled the Adjusted non-GAAP earnings per diluted share and any related tax rate information included in this release to the most directly comparable GAAP measure because this cannot be done without unreasonable effort due to the variability with respect to costs related to acquisitions and taxation, which are potential adjustments to future earnings. We expect the variability of these items to have a potentially unpredictable and significant impact on our future GAAP financial results.

SHARE REPURCHASE PROGRAM

J2 Global's Board of Directors has approved a share repurchase program. Under the new program, the Company may purchase in the public market or in off-market transactions up to 10 million shares through August 6, 2025. The timing and amounts of any purchases will be determined by the Company from time to time, depending on market conditions and other factors it deems relevant.

Notes:

- (1) The revenues associated with each of the businesses may not foot precisely since each is presented independently.
- (2) Free cash flow is defined as net cash provided by operating activities, less purchases of property and equipment, plus contingent consideration. Free cash flow amounts are not meant as a substitute for GAAP, but are solely for informational purposes.
- (3) The estimated GAAP effective tax rates were approximately 26.7% for Q2 2020 and 28.1% for Q2 2019. The estimated Adjusted non-GAAP effective tax rates were approximately 21.8% for Q2 2020 and 21.0% for Q2 2019.
- (4) Adjusted non-GAAP earnings per diluted share excludes certain non-GAAP items, as defined in the Reconciliation of GAAP to Adjusted non-GAAP Financial Measures, for the three months ended June 30, 2020 and 2019 totaled \$0.91 and \$0.94 per diluted share, respectively.
- (5) Adjusted EBITDA is defined as earnings before interest; loss on investments, net; other (income) expense, net; income tax expense; net loss (income) in earnings of equity method investments; depreciation and amortization; and the items used to reconcile EPS to Adjusted non-GAAP EPS, as defined in the Reconciliation of GAAP to Adjusted non-GAAP Financial Measures. Adjusted EBITDA amounts are not meant as a substitute for GAAP, but are solely for informational purposes.

About J2 Global

J2 Global, Inc. (NASDAQ: JCOM) is a leading internet information and services company consisting of a portfolio of brands including IGN, Mashable, Humble Bundle, Speedtest, PCMag, Offers.com, Spiceworks, Everyday Health, BabyCenter and What To Expect in its Digital Media business and eFax, eVoice, iContact, Campaigner, Vipre, IPVanish and KeepItSafe in its Cloud Services business. J2 reaches in excess of 180 million people per month across its brands. As of December 31, 2019, J2 had achieved 24 consecutive fiscal years of revenue growth. For more information about J2, please visit www.J2global.com.

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“Safe Harbor” Statement Under the Private Securities Litigation Reform Act of 1995: Certain statements in this Press Release are “forward-looking statements” within the meaning of The Private Securities Litigation Reform Act of 1995, including those contained in Vivek Shah’s quote and the “Business Outlook” portion regarding the Company’s expected fiscal 2020 financial performance. These forward-looking statements are based on management’s current expectations or beliefs and are subject to numerous assumptions, risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These factors and uncertainties include, among other items: the Company’s ability to grow non-fax revenues, profitability and cash flows; the Company’s ability to identify, close and successfully transition acquisitions; subscriber growth and retention; variability of the Company’s revenue based on changing conditions in particular industries and the economy generally; protection of the Company’s proprietary technology or infringement by the Company of intellectual property of others; the risk of adverse changes in the U.S. or international regulatory environments, including but not limited to the imposition or increase of taxes or regulatory-related fees; and the numerous other factors set forth in J2 Global’s filings with the Securities and Exchange Commission (“SEC”). For a more detailed description of the risk factors and uncertainties affecting J2 Global, refer to the 2019 Annual Report on Form 10-K filed by J2 Global on March 2, 2020, and the other reports filed by J2 Global from time-to-time with the SEC, each of which is available at www.sec.gov. The forward-looking statements provided in this press release, including those contained in Vivek Shah’s quote and in the “Business Outlook” portion regarding the Company’s expected fiscal 2020 financial performance are based on limited information available to the Company at this time, which is subject to change. Although management’s expectations may change after the date of this press release, the Company undertakes no obligation to revise or update these statements.

About Non-GAAP Financial Measures

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we use the following Adjusted non-GAAP financial measures: Adjusted non-GAAP net income, Adjusted non-GAAP earnings per diluted share, Adjusted EBITDA and free cash flow. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP.

We use these Adjusted non-GAAP financial measures for financial and operational decision-making and as a means to evaluate period-to-period comparisons. Our management believes that these Adjusted non-GAAP financial measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses and expenditures that may not be indicative of our recurring core business operating results. We believe that both management and investors benefit from referring to these Adjusted non-GAAP financial measures in assessing our performance and when planning, forecasting, and analyzing future periods. These Adjusted non-GAAP financial measures also facilitate management’s internal comparisons to our historical performance and liquidity. We believe these Adjusted non-GAAP financial measures are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

For more information on these Adjusted non-GAAP financial measures, please see the appropriate GAAP to Adjusted non-GAAP reconciliation tables included within the attached Exhibit to this release.

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED, IN THOUSANDS)

	June 30, 2020	December 31, 2019
ASSETS		
Cash and cash equivalents	\$ 616,820	\$ 575,615
Accounts receivable, net of allowances of \$11,834 and \$12,701, respectively	188,383	261,928
Prepaid expenses and other current assets	45,767	49,347
Current assets held for sale	2,175	—
Total current assets	853,145	886,890
Long-term investments	94,042	100,079
Property and equipment, net	144,494	127,817
Operating lease right-of-use assets	110,031	125,822
Goodwill	1,637,287	1,633,033
Other purchased intangibles, net	490,435	556,553
Deferred income taxes, noncurrent	56,947	59,976
Other assets	16,199	15,676
Noncurrent assets held for sale	16,865	—
TOTAL ASSETS	\$ 3,419,445	\$ 3,505,846
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable and accrued expenses	\$ 166,289	\$ 238,059
Income taxes payable, current	24,402	17,758
Deferred revenue, current	159,907	162,855
Operating lease liabilities, current	26,602	26,927
Current portion of long-term debt	391,092	385,532
Other current liabilities	1,501	1,973
Current liabilities held for sale	2,388	—
Total current liabilities	772,181	833,104
Long-term debt	1,071,364	1,062,929
Deferred revenue, noncurrent	11,501	12,744
Operating lease liabilities, noncurrent	91,279	104,070
Income taxes payable, noncurrent	11,675	11,675
Liability for uncertain tax positions	57,565	52,451
Deferred income taxes, noncurrent	111,746	107,453
Other long-term liabilities	28,810	10,228
Noncurrent liabilities held for sale	156	—
TOTAL LIABILITIES	2,156,277	2,194,654
Commitments and contingencies	—	—
Preferred stock	—	—
Common stock	469	476
Additional paid-in capital	467,267	465,652
Retained earnings	850,232	891,526
Accumulated other comprehensive loss	(54,800)	(46,462)
TOTAL STOCKHOLDERS' EQUITY	1,263,168	1,311,192
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 3,419,445	\$ 3,505,846

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED, IN THOUSANDS EXCEPT SHARE AND PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Total revenues	\$ 330,984	\$ 322,432	\$ 663,377	\$ 622,325
Cost of revenues ⁽¹⁾	56,802	60,266	115,933	111,279
Gross profit	274,182	262,166	547,444	511,046
Operating expenses:				
Sales and marketing ⁽¹⁾	92,805	88,446	192,243	175,326
Research, development and engineering ⁽¹⁾	13,606	11,938	29,012	24,922
General and administrative ⁽¹⁾	94,731	105,168	197,902	203,322
Total operating expenses	201,142	205,552	419,157	403,570
Income from operations	73,040	56,614	128,287	107,476
Interest expense, net	22,196	17,335	43,167	33,354
Loss on investments, net	3	24	20,835	38
Other (income) expense, net	(9,059)	(401)	(2,183)	1,800
Income before income taxes and net loss (income) in earnings of equity method investment	59,900	39,656	66,468	72,284
Income tax expense	15,978	11,148	24,681	10,853
Net loss (income) in earnings of equity method investment	5,821	(4,081)	10,090	(3,607)
Net income	\$ 38,101	\$ 32,589	\$ 31,697	\$ 65,038
Basic net income per common share:				
Net income attributable to J2 Global, Inc. common shareholders	\$ 0.81	\$ 0.67	\$ 0.67	\$ 1.35
Diluted net income per common share:				
Net income attributable to J2 Global, Inc. common shareholders	\$ 0.80	\$ 0.66	\$ 0.65	\$ 1.32
Basic weighted average shares outstanding	46,850,944	47,727,786	47,235,859	47,644,729
Diluted weighted average shares outstanding	47,437,555	49,102,879	48,279,417	48,806,492

⁽¹⁾ Includes share-based compensation expense as follows:

Cost of revenues	\$ 143	\$ 131	\$ 277	\$ 263
Sales and marketing	416	389	814	793
Research, development and engineering	484	361	915	719
General and administrative	5,487	5,981	10,837	10,173
Total	\$ 6,530	\$ 6,862	\$ 12,843	\$ 11,948

J2 GLOBAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED, IN THOUSANDS)

	Six Months Ended June 30,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 31,697	\$ 65,038
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	104,068	106,212
Amortization of financing costs and discounts	14,102	5,995
Non-cash operating lease costs	11,453	9,038
Share-based compensation	12,843	11,948
Provision for doubtful accounts	6,793	5,686
Deferred income taxes, net	2,752	3,908
Changes in fair value of contingent consideration	(232)	8,475
Foreign currency remeasurement gain	(704)	—
Loss (income) on equity method investments	10,090	(4,765)
Loss on equity and debt investments	20,826	—
Decrease (increase) in:		
Accounts receivable	63,675	42,930
Prepaid expenses and other current assets	(4,185)	(3,277)
Other assets	(300)	(1,233)
Increase (decrease) in:		
Accounts payable and accrued expenses	(34,682)	(12,452)
Income taxes payable	7,376	(3,810)
Deferred revenue	(2,698)	(3,292)
Operating lease liabilities	(8,780)	(8,833)
Liability for uncertain tax positions	5,114	(10,811)
Other long-term liabilities	2,419	1,454
Net cash provided by operating activities	<u>241,627</u>	<u>212,211</u>
Cash flows from investing activities:		
Purchases of equity method investment	(26,523)	(14,668)
Purchases of equity investments	(843)	—
Purchases of property and equipment	(50,537)	(30,791)
Acquisition of businesses, net of cash received	(19,349)	(266,000)
Proceeds from sale of assets	407	—
Purchases of intangible assets	(23)	—
Net cash used in investing activities	<u>(96,868)</u>	<u>(311,459)</u>
Cash flows from financing activities:		
Proceeds from line of credit	—	100,000
Repurchase of common stock	(88,469)	(3,807)
Issuance of common stock under employee stock purchase plan	3,303	1,995
Exercise of stock options	952	5,274
Dividends paid	—	(43,965)
Deferred payments for acquisitions	(16,296)	(14,269)
Other	(1,032)	(429)
Net cash (used in) provided by financing activities	<u>(101,542)</u>	<u>44,799</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(2,012)</u>	<u>451</u>
Net change in cash and cash equivalents	41,205	(53,998)
Cash and cash equivalents at beginning of period	575,615	209,474
Cash and cash equivalents at end of period	<u><u>\$ 616,820</u></u>	<u><u>\$ 155,476</u></u>

J2 GLOBAL, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP TO ADJUSTED NON-GAAP FINANCIAL MEASURES
THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Non-GAAP net income is GAAP net income with the following modifications: (1) elimination of share-based compensation; (2) elimination of certain acquisition related integration costs; (3) elimination of interest costs in excess of the coupon rate associated with the convertible notes; (4) elimination of amortization of patents and intangible assets that we acquired; (5) elimination of change in value on investment; (6) elimination of additional tax expense/benefit from prior years; (7) elimination of gain on sale of assets; (8) elimination of intra-entity transfers; (9) elimination of lease asset impairments and other charges; and (10) elimination of dilutive effect of the convertible debt.

Three Months Ended June 30,				
	2020	Per Diluted Share[*]	2019	Per Diluted Share[*]
Net income	\$ 38,101	\$ 0.80	\$ 32,589	\$ 0.66
Plus:				
Share based compensation ⁽¹⁾	4,990	0.11	6,266	0.13
Acquisition related integration costs ⁽²⁾	498	0.01	3,245	0.07
Interest costs ⁽³⁾	4,831	0.10	2,438	0.05
Amortization ⁽⁴⁾	25,225	0.54	35,938	0.75
Investments ⁽⁵⁾	9,714	0.21	(4,081)	(0.08)
Tax expense from prior years ⁽⁶⁾	1,977	0.04	1,335	0.03
Sale of assets ⁽⁷⁾	(137)	—	—	—
Intra-entity transfers ⁽⁸⁾	(6,432)	(0.14)	—	—
Lease asset impairments and other charges ⁽⁹⁾	1,826	0.04	—	—
Convertible debt dilution ⁽¹⁰⁾	—	0.01	—	0.02
Adjusted non-GAAP net income	\$ 80,593	\$ 1.71	\$ 77,730	\$ 1.60

* The reconciliation of net income per share from GAAP to Adjusted non-GAAP may not foot since each is calculated independently.

Six Months Ended June 30,				
	2020	Per Diluted Share[*]	2019	Per Diluted Share[*]
Net income	\$ 31,697	\$ 0.65	\$ 65,038	\$ 1.32
Plus:				
Share based compensation ⁽¹⁾	9,798	0.21	9,553	0.20
Acquisition related integration costs ⁽²⁾	1,593	0.03	7,620	0.16
Interest costs ⁽³⁾	9,146	0.19	3,735	0.08
Amortization ⁽⁴⁾	57,083	1.21	61,441	1.29
Investments ⁽⁵⁾	34,808	0.73	(3,607)	(0.07)
Tax expense from prior years ⁽⁶⁾	2,365	0.05	2,345	0.05
Sale of assets ⁽⁷⁾	(334)	(0.01)	—	—
Intra-entity transfers ⁽⁸⁾	131	—	—	—
Lease asset impairments and other charges ⁽⁹⁾	1,826	0.04	—	—
Convertible debt dilution ⁽¹⁰⁾	—	0.01	—	0.03
Adjusted non-GAAP net income	\$ 148,113	\$ 3.11	\$ 146,125	\$ 3.00

* The reconciliation of net income per share from GAAP to Adjusted non-GAAP may not foot since each is calculated independently.

J2 GLOBAL, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP TO ADJUSTED NON-GAAP FINANCIAL MEASURES
THREE MONTHS ENDED JUNE 30, 2020 AND 2019
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Non-GAAP net income is GAAP net income with the following modifications: (1) elimination of share-based compensation; (2) elimination of certain acquisition related integration costs; (3) elimination of interest costs in excess of the coupon rate associated with the convertible notes; (4) elimination of amortization of patents and intangible assets that we acquired; (5) elimination of change in value on investment; (6) elimination of additional tax expense/benefit from prior years; (7) elimination of gain on sale of assets; (8) elimination of intra-entity transfers; (9) elimination of lease asset impairments and other charges; and (10) elimination of dilutive effect of the convertible debt.

	Three Months Ended June 30,	
	2020	2019
Cost of revenues	\$ 56,802	\$ 60,266
Plus:		
Share based compensation ⁽¹⁾	(143)	(131)
Acquisition related integration costs ⁽²⁾	(55)	(55)
Amortization ⁽⁴⁾	(448)	(461)
Adjusted non-GAAP cost of revenues	\$ 56,156	\$ 59,619
Sales and marketing	\$ 92,805	\$ 88,446
Plus:		
Share based compensation ⁽¹⁾	(416)	(389)
Acquisition related integration costs ⁽²⁾	(167)	154
Adjusted non-GAAP sales and marketing	\$ 92,222	\$ 88,211
Research, development and engineering	\$ 13,606	\$ 11,938
Plus:		
Share based compensation ⁽¹⁾	(484)	(361)
Acquisition related integration costs ⁽²⁾	26	—
Adjusted non-GAAP research, development and engineering	\$ 13,148	\$ 11,577
General and administrative	\$ 94,731	\$ 105,168
Plus:		
Share based compensation ⁽¹⁾	(5,487)	(5,981)
Acquisition related integration costs ⁽²⁾	(605)	(4,794)
Amortization ⁽⁴⁾	(35,439)	(44,493)
Lease asset impairments and other charges ⁽⁹⁾	(2,406)	—
Adjusted non-GAAP general and administrative	\$ 50,794	\$ 49,900
Interest expense, net	\$ 22,196	\$ 17,335
Plus:		
Interest costs ⁽³⁾	(6,018)	(2,276)
Adjusted non-GAAP interest expense, net	\$ 16,178	\$ 15,059
Loss on investments, net	\$ 3	\$ 24
Adjusted non-GAAP loss on investments, net	\$ 3	\$ 24
Other income, net	\$ (9,059)	\$ (401)
Plus:		
Sale of assets ⁽⁷⁾	181	—
Intra-entity transfers ⁽⁸⁾	8,267	—

Adjusted non-GAAP other income, net	\$ (611)	\$ (401)
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Income tax provision	\$ 15,978	\$ 11,148
Plus:		
Share based compensation ⁽¹⁾	1,540	596
Acquisition related integration costs ⁽²⁾	303	1,450
Interest costs ⁽³⁾	1,187	(162)
Amortization ⁽⁴⁾	10,662	9,016
Investments ⁽⁵⁾	(3,893)	—
Tax benefit from prior years ⁽⁶⁾	(1,977)	(1,335)
Sale of assets ⁽⁷⁾	(44)	—
Intra-entity transfers ⁽⁸⁾	(1,835)	—
Lease asset impairments and other charges ⁽⁹⁾	580	—
Adjusted non-GAAP income tax provision	\$ 22,501	\$ 20,713
Net loss (income) in earnings of equity method investment	\$ 5,821	\$ (4,081)
Plus:		
Investments ⁽⁵⁾	(5,821)	4,081
Adjusted non-GAAP net loss (income) in earnings of equity method investment	\$ —	\$ —
Total adjustments	\$ (42,492)	\$ (45,141)
GAAP earnings per diluted share	\$ 0.80	\$ 0.66
Adjustments *	\$ 0.91	\$ 0.94
Adjusted non-GAAP earnings per diluted share	\$ 1.71	\$ 1.60

* The reconciliation of net income per share from GAAP to Adjusted non-GAAP may not foot since each is calculated independently.

The Company discloses Adjusted non-GAAP Earnings Per Share (“EPS”) as a supplemental Non-GAAP financial performance measure, as it believes it is a useful metric by which to compare the performance of its business from period to period. The Company also understands that this Adjusted non-GAAP measure is broadly used by analysts, rating agencies and investors in assessing the Company’s performance. Accordingly, the Company believes that the presentation of this Adjusted non-GAAP financial measure provides useful information to investors.

Adjusted non-GAAP EPS is not in accordance with, or an alternative to, net income per share and may be different from Non-GAAP measures with similar or even identical names used by other companies. In addition, this Adjusted non-GAAP measure is not based on any comprehensive set of accounting rules or principles. This Adjusted non-GAAP measure has limitations in that it does not reflect all of the amounts associated with the Company’s results of operations determined in accordance with GAAP.

J2 GLOBAL, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP TO ADJUSTED NON-GAAP FINANCIAL MEASURES
SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Non-GAAP net income is GAAP net income with the following modifications: (1) elimination of share-based compensation; (2) elimination of certain acquisition related integration costs; (3) elimination of interest costs in excess of the coupon rate associated with the convertible notes; (4) elimination of amortization of patents and intangible assets that we acquired; (5) elimination of change in value on investment; (6) elimination of additional tax expense/benefit from prior years; (7) elimination of gain on sale of assets; (8) elimination of intra-entity transfers; (9) elimination of lease asset impairments and other charges; and (10) elimination of dilutive effect of the convertible debt.

	Six Months Ended June 30,	
	2020	2019
Cost of revenues	\$ 115,933	\$ 111,279
Plus:		
Share based compensation ⁽¹⁾	(277)	(263)
Acquisition related integration costs ⁽²⁾	(110)	(55)
Amortization ⁽⁴⁾	(898)	(983)
Adjusted non-GAAP cost of revenues	\$ 114,648	\$ 109,978
Sales and marketing	\$ 192,243	\$ 175,326
Plus:		
Share based compensation ⁽¹⁾	(814)	(793)
Acquisition related integration costs ⁽²⁾	(681)	276
Adjusted non-GAAP sales and marketing	\$ 190,748	\$ 174,809
Research, development and engineering	\$ 29,012	\$ 24,922
Plus:		
Share based compensation ⁽¹⁾	(915)	(719)
Acquisition related integration costs ⁽²⁾	26	—
Adjusted non-GAAP research, development and engineering	\$ 28,123	\$ 24,203
General and administrative	\$ 197,902	\$ 203,322
Plus:		
Share based compensation ⁽¹⁾	(10,837)	(10,173)
Acquisition related integration costs ⁽²⁾	(1,334)	(10,280)
Amortization ⁽⁴⁾	(74,152)	(81,813)
Tax expense from prior years ⁽⁶⁾	—	(3,373)
Lease asset impairments and other charges ⁽⁹⁾	(2,406)	—
Adjusted non-GAAP general and administrative	\$ 109,173	\$ 97,683
Interest expense, net	\$ 43,167	\$ 33,354
Plus:		
Acquisition related integration costs ⁽²⁾	—	27
Interest costs ⁽³⁾	(11,952)	(4,519)
Adjusted non-GAAP interest expense, net	\$ 31,215	\$ 28,862
Loss on investments, net	\$ 20,835	\$ 38
Plus:		
Investments ⁽⁵⁾	(20,825)	—

Adjusted non-GAAP loss on investments, net	\$ 10	\$ 38
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Other (income) expense, net	\$ (2,183)	\$ 1,800
Plus:		
Sale of assets ⁽⁷⁾	438	—
Intra-entity transfers ⁽⁸⁾	1,565	—
Adjusted non-GAAP other (income) expense, net	\$ (180)	\$ 1,800
Income tax provision	\$ 24,681	\$ 10,853
Plus:		
Share based compensation ⁽¹⁾	3,045	2,395
Acquisition related integration costs ⁽²⁾	506	2,412
Interest costs ⁽³⁾	2,806	784
Amortization ⁽⁴⁾	17,967	21,355
Investments ⁽⁵⁾	(3,893)	—
Tax (benefit) expense from prior years ⁽⁶⁾	(2,365)	1,028
Sale of assets ⁽⁷⁾	(104)	—
Intra-entity transfers ⁽⁸⁾	(1,696)	—
Lease asset impairments and other charges ⁽⁹⁾	580	—
Adjusted non-GAAP income tax provision	\$ 41,527	\$ 38,827
Net loss (income) in earnings of equity method investment	\$ 10,090	\$ (3,607)
Plus:		
Investments ⁽⁵⁾	(10,090)	3,607
Adjusted non-GAAP net loss (income) in earnings of equity method investment	\$ —	\$ —
Total adjustments	\$ (116,416)	\$ (81,087)
GAAP earnings per diluted share	\$ 0.65	\$ 1.32
Adjustments *	\$ 2.46	\$ 1.69
Adjusted non-GAAP earnings per diluted share	\$ 3.11	\$ 3.00

* The reconciliation of net income per share from GAAP to Adjusted non-GAAP may not foot since each is calculated independently.

The Company discloses Adjusted non-GAAP Earnings Per Share (“EPS”) as a supplemental Non-GAAP financial performance measure, as it believes it is a useful metric by which to compare the performance of its business from period to period. The Company also understands that this Adjusted non-GAAP measure is broadly used by analysts, rating agencies and investors in assessing the Company’s performance. Accordingly, the Company believes that the presentation of this Adjusted non-GAAP financial measure provides useful information to investors.

Adjusted non-GAAP EPS is not in accordance with, or an alternative to, net income per share and may be different from Non-GAAP measures with similar or even identical names used by other companies. In addition, this Adjusted non-GAAP measure is not based on any comprehensive set of accounting rules or principles. This Adjusted non-GAAP measure has limitations in that it does not reflect all of the amounts associated with the Company’s results of operations determined in accordance with GAAP.

Non-GAAP Financial Measures

To supplement its condensed consolidated financial statements, which are prepared and presented in accordance with US GAAP, the Company uses the following Non-GAAP financial measures: Adjusted EBITDA, Adjusted non-GAAP Net Income, and Adjusted non-GAAP Diluted EPS (collectively the “Non-GAAP financial measures”). The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP. The Company uses these Non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. The Company believes that they provide useful information about core operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to key metrics used by management in its financial and operational decision making.

(1) *Share Based Compensation.* The Company excludes stock-based compensation because it is non-cash in nature and because the Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. The Company further believes this measure is useful to investors in that it allows for greater transparency to certain line items in its financial statements. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results and comparisons to peers, many of which similarly exclude this item.

(2) *Acquisition Related Integration Costs.* The Company excludes certain acquisition and related integration costs such as adjustments to contingent consideration, severance, lease terminations, retention bonuses and other acquisition-specific items. The Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results and comparisons to peers, many of which similarly exclude this item.

(3) *Interest Costs.* In June 2014, the Company issued \$402.5 million aggregate principal amount of 3.25% convertible senior notes and in November 2019, the Company issued \$550.0 million aggregate principal amount of 1.75% convertible senior notes. In accordance with GAAP, the Company separately accounts for the value of the liability and equity features of its outstanding convertible senior notes in a manner that reflects the Company’s non-convertible debt borrowing rate. The value of the conversion feature, reflected as a debt discount, is amortized to interest expense over time. Accordingly, the Company recognizes imputed interest expense on its 3.25% and 1.75% convertible senior notes of approximately 5.8% and 5.5%, respectively, in its statement of operations. The Company excludes the difference between the imputed interest expense and the coupon interest expense of 3.25% and 1.75%, respectively, because it is non-cash in nature and because the Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding core operational performance. The Company has determined excluding these items from the Non-GAAP measures facilitates comparisons to historical operating results and comparisons to peers, many of which similarly exclude this item.

(4) *Amortization.* The Company excludes amortization of patents and acquired intangible assets because it is non-cash in nature and because the Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results and comparisons to peers, many of which similarly exclude this item.

(5) *Change in Value on Investments.* The Company excludes the change in value on its investments. The Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results.

(6) *Tax Expense/Benefit from Prior Years.* The Company excludes certain income tax-related items in respect of income tax audit settlements and their related reversals of income tax reserves accounted for through ASC 740-10. The Company believes that the Non-GAAP financial measures excluding these items provide meaningful supplemental information regarding operational performance. In addition, excluding these items from the Non-GAAP measures facilitates comparisons to historical operating results.

(7) *Gain on Sale of Assets.* The Company excludes the gain on sale of certain of its assets. The Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results.

(8) *Intra-Entity Transfers*. The Company excludes certain effects of intra-entity transfers to the extent the related tax asset or liability in the financial statement is not recovered or settled, respectively during the year. During December 2019, the Company entered into an intra-entity asset transfer that resulted in the recording of a tax benefit and related tax asset representing tax deductible amounts to be realized in future years which is expected to be recovered over a period of up to 20 years. The Company believes that the Non-GAAP financial measures excluding the cumulative future unrealized benefit of the assets transferred and including the tax benefit in the year of realization provides meaningful supplemental information regarding operational performance. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results.

(9) *Lease Asset Impairments and Other Charges*. The Company excludes lease asset impairments and other charges as they are non-cash in nature and because the Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results.

(10) *Convertible Debt Dilution*. The Company excludes convertible debt dilution from diluted EPS. The Company believes that the Non-GAAP financial measures excluding this item provide meaningful supplemental information regarding operational performance. In addition, excluding this item from the Non-GAAP measures facilitates comparisons to historical operating results.

The Company presents Adjusted non-GAAP Cost of Revenues, Adjusted non-GAAP Research, Development and Engineering, Adjusted non-GAAP Sales and Marketing, Adjusted non-GAAP General and Administrative, Adjusted non-GAAP Interest Expense, Adjusted non-GAAP Loss on Investments, Adjusted non-GAAP Other (Income) Expense, Adjusted non-GAAP Income Tax Provision, Adjusted non-GAAP Net Loss (Income) in Earnings of Equity Method Investment and Adjusted non-GAAP Net Income because the Company believes that these provide useful information about our operating results and enhance the overall understanding of past financial performance and future prospects.

J2 GLOBAL, INC. AND SUBSIDIARIES
NET INCOME TO ADJUSTED EBITDA RECONCILIATION
THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(UNAUDITED, IN THOUSANDS)

The following table sets forth a reconciliation of Adjusted EBITDA to net income, the most directly comparable GAAP financial measure.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	\$ 38,101	\$ 32,589	\$ 31,697	\$ 65,038
Plus:				
Interest expense, net	22,196	17,335	43,167	33,354
Loss on investments, net	3	24	20,835	38
Other (income) expense, net	(9,059)	(401)	(2,183)	1,800
Income tax expense	15,978	11,148	24,681	10,853
Net loss (income) in earnings of equity method investment	5,821	(4,081)	10,090	(3,607)
Depreciation and amortization	50,088	57,003	104,068	106,212
Reconciliation of GAAP to Adjusted non-GAAP financial measures:				
Share-based compensation	6,530	6,862	12,843	11,948
Acquisition-related integration costs	801	4,695	2,099	10,059
Additional indirect tax expense from prior years	—	—	—	3,373
Lease asset impairments and other charges	2,406	—	2,406	—
Adjusted EBITDA	\$ 132,865	\$ 125,174	\$ 249,703	\$ 239,068

Adjusted EBITDA as calculated above represents earnings before interest, loss on investments, net, other (income) expense, net, income tax expense, net loss (income) in earnings of equity method investments, depreciation and amortization and the items used to reconcile GAAP to Adjusted non-GAAP financial measures, including (1) share-based compensation, (2) certain acquisition-related integration costs, (3) additional indirect tax expense from prior years, and (4) lease asset impairments and other charges. We disclose Adjusted EBITDA as a supplemental Non-GAAP financial performance measure as we believe it is a useful metric by which to compare the performance of our business from period to period. We understand that measures similar to Adjusted EBITDA are broadly used by analysts, rating agencies and investors in assessing our performance. Accordingly, we believe that the presentation of Adjusted EBITDA provides useful information to investors.

Adjusted EBITDA is not in accordance with, or an alternative to, net income, and may be different from Non-GAAP measures used by other companies. In addition, Adjusted EBITDA is not based on any comprehensive set of accounting rules or principles. This Adjusted non-GAAP measure has limitations in that it does not reflect all of the amounts associated with the Company's results of operations determined in accordance with GAAP.

J2 GLOBAL, INC. AND SUBSIDIARIES
NON-GAAP FINANCIAL MEASURES
(UNAUDITED, IN THOUSANDS)

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>YTD</u>
2020					
Net cash provided by operating activities	\$ 102,036	\$ 139,591	\$ —	\$ —	\$ 241,627
Less: Purchases of property and equipment	(26,885)	(23,652)	—	—	(50,537)
Add: Contingent consideration*	20,054	—	—	—	20,054
Free cash flows	\$ 95,205	\$ 115,939	\$ —	\$ —	\$ 211,144

* Free Cash Flows of \$95.2 million for Q1 2020 is before the effect of payments associated with certain contingent consideration associated with recent acquisitions.

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>YTD</u>
2019					
Net cash provided by operating activities	\$ 116,854	\$ 95,357	\$ 97,096	\$ 103,232	\$ 412,539
Less: Purchases of property and equipment	(12,531)	(18,260)	(18,692)	(21,105)	(70,588)
Add: Contingent consideration*	—	8,698	(240)	—	8,458
Free cash flows	\$ 104,323	\$ 85,795	\$ 78,164	\$ 82,127	\$ 350,409

* Free Cash Flows of \$85.8 million for Q2 2019 and \$78.2 million for Q3 2019 is before the effect of payments associated with certain contingent consideration associated with recent acquisitions.

The Company discloses free cash flows as supplemental Non-GAAP financial performance measure, as it believes it is a useful metric by which to compare the performance of its business from period to period. The Company also understands that this Non-GAAP measure is broadly used by analysts, rating agencies and investors in assessing the Company's performance. Accordingly, the Company believes that the presentation of this Non-GAAP financial measure provides useful information to investors.

Free cash flows is not in accordance with, or an alternative to, Cash Flows from Operating Activities, and may be different from Non-GAAP measures with similar or even identical names used by other companies. In addition, the Non-GAAP measure is not based on any comprehensive set of accounting rules or principles. This Non-GAAP measure has limitations in that it does not reflect all of the amounts associated with the Company's results of operations determined in accordance with GAAP.

J2 GLOBAL, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP TO ADJUSTED NON-GAAP FINANCIAL MEASURES
THREE MONTHS ENDED JUNE 30, 2020
(UNAUDITED, IN THOUSANDS)

	Cloud Services	Digital Media	Corporate	Total
Revenues				
GAAP revenues	\$ 167,058	\$ 163,926	\$ —	\$ 330,984
Gross profit				
GAAP gross profit	\$ 127,631	\$ 146,588	\$ (37)	\$ 274,182
Non-GAAP adjustments:				
Share-based compensation	140	3	—	143
Acquisition related integration costs	55	—	—	55
Amortization	448	—	—	448
Adjusted non-GAAP gross profit	\$ 128,274	\$ 146,591	\$ (37)	\$ 274,828
Operating profit				
GAAP operating profit	\$ 62,038	\$ 16,759	\$ (5,757)	\$ 73,040
Non-GAAP adjustments:				
Share-based compensation	1,628	1,544	3,358	6,530
Acquisition related integration costs	37	764	—	801
Amortization	13,088	22,268	531	35,887
Lease asset impairments and other charges	—	2,406	—	2,406
Adjusted non-GAAP operating profit	\$ 76,791	\$ 43,741	\$ (1,868)	\$ 118,664
Depreciation	3,904	10,297	—	14,201
Adjusted EBITDA	\$ 80,695	\$ 54,038	\$ (1,868)	\$ 132,865

NOTE 1: Table above excludes certain intercompany allocations

NOTE 2: The table above is impacted by certain expenses associated with the Corporate entity that were allocated to the Cloud Services business and the Digital Media business as these costs are shared costs incurred by the Corporate entity. As a result, expenses were allocated from Corporate to Cloud Services and Digital Media in the amount of \$2.8 million and \$3.1 million, respectively.

The effects noted above reduce Adjusted EBITDA for Cloud Services and Digital Media by \$2.8 million and \$3.1 million, respectively.

J2 GLOBAL, INC. AND SUBSIDIARIES
RECONCILIATION OF GAAP TO ADJUSTED NON-GAAP FINANCIAL MEASURES
THREE MONTHS ENDED JUNE 30, 2019
(UNAUDITED, IN THOUSANDS)

	Cloud Services	Digital Media	Corporate	Total
Revenues				
GAAP revenues	\$ 169,132	\$ 153,298	\$ 2	\$ 322,432
Gross profit				
GAAP gross profit	\$ 132,534	\$ 129,630	\$ 2	\$ 262,166
Non-GAAP adjustments:				
Share-based compensation	128	3	—	131
Acquisition related integration costs	55	—	—	55
Amortization	461	—	—	461
Adjusted non-GAAP gross profit	\$ 133,178	\$ 129,633	\$ 2	\$ 262,813
Operating profit				
GAAP operating profit	\$ 62,408	\$ 1,471	\$ (7,265)	\$ 56,614
Non-GAAP adjustments:				
Share-based compensation	1,367	1,388	4,107	6,862
Acquisition related integration costs	894	3,801	—	4,695
Amortization	17,702	26,638	614	44,954
Adjusted non-GAAP operating profit	\$ 82,371	\$ 33,298	\$ (2,544)	\$ 113,125
Depreciation	2,789	9,260	—	12,049
Adjusted EBITDA	\$ 85,160	\$ 42,558	\$ (2,544)	\$ 125,174

NOTE 1: Table above excludes certain intercompany allocations

NOTE 2: The table above is impacted by certain expenses associated with the Corporate entity that were allocated to the Cloud Services business and Digital Media business as these costs are shared costs incurred by the Corporate entity. As a result, expenses were allocated from Corporate to Cloud Services and Digital Media in the amount of \$2.3 million and \$2.5 million, respectively.

The effects noted above reduce Adjusted EBITDA for Cloud Services and Digital Media by \$2.3 million and \$2.5 million, respectively.