

LegalZoom

Likely growth can improve from here on ARPU tailwinds, as margin expands; Buy

Reiterate Rating: BUY | PO: 13.00 USD | Price: 9.83 USD

Reports mostly positive 4Q; strong FY24 margin guide

LZ reported Rev of \$159mn vs. Street at \$157mn, Formations at 113k vs. Street at 126k, Gross Profit of \$103mn vs. Street at \$102mn, and \$33mn in EBITDA vs. Street at \$29mn. With the miss in Formations, mgmt noted some share losses as the industry outgrew LZ slightly. 1Q guide for Revenue/EBITDA of \$172-176mn/\$25-27mn was slightly soft vs. Street at \$175.7mn/\$28mn prior, but FY24 EBITDA implies improving margin in 2H'24. FY24 Revenue/EBITDA of \$700-720mn/\$135-145mn bracketed Street at \$716mn on the top line but was above Street at \$135mn on the bottom line.

Share losses more a technicality than a concern

Mgmt. emphasized "share losses" in 2H'23, but these are relative to the greater industry of business formation rather than within the Online market specifically, and losses that did occur were driven by partner channel changes. ARPU headwinds this year should also turn into tailwinds for Y/Y growth throughout 2024, helping Total Revenue growth accelerate throughout the year. After a significant year for new product launches in 2023, we expect mgmt to focus on executing conversion & improving attach rates in FY24, with relatively less big investment in new product launches vs. 2023.

Estimate Changes: Revs lower, margins higher in out-yr's

For our estimates, we expect incremental GM headwinds in 1H'24 related to the slight slowdown in revenue growth, with GM improving in the back half of '24 due to improving conversion on subscription add-on strength, new features/integrations, and compliance market tailwinds. We also expect marketing costs to kick back in soon, but still driving L.T. leverage in the model. For 1Q, we lower revenue growth to 6% from 10%, and lower our EBITDA margin from 18% to 15%. For 2025, we are now at Revenue/EBITDA of \$798mn/\$173.5mn vs. \$820mn/\$170mn prior.

Lowering PO slightly with lower growth profile; Reit. Buy

Despite the beat across most metrics, we are lowering our PO slightly due to multiple compression within the comp group. As we roll forward our valuation basis to 2025, we apply a 12x 2025E EBITDA multiple (down from 18x 2024E EBITDA prior). This is a slight discount to the comp group at 14x (17x prior), given LZ's slightly lower revenue growth profile (2024E Revenue growth at 8%, vs. comp median at 12%). This translates to a \$13 PO (\$14 prior). With LZ remaining the leader in online legal services, and share gains ahead, we reiterate our Buy rating.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	0.19	0.51	0.59	0.72	0.68
GAAP EPS	(0.24)	0.14	0.22	0.32	0.24
EPS Change (YoY)	850.0%	168.4%	15.7%	22.0%	-5.6%
Consensus EPS (Bloomberg)			0.50	0.61	0.78
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	51.7x	19.3x	16.7x	13.7x	14.5x
GAAP P/E	NM	70.2x	44.7x	30.7x	41.0x
EV / EBITDA*	24.9x	13.8x	11.2x	9.1x	9.4x
Free Cash Flow Yield*	2.7%	4.8%	6.4%	7.3%	7.8%

* For full definitions of *IQmethod*SM measures, see page 6.

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	14.00	13.00
2024E Rev (m)	729.0	719.4
2025E Rev (m)	820.5	798.5
2026E Rev (m)	NA	850.8
2024E EPS	0.56	0.59
2025E EPS	0.68	0.72
2026E EPS	NA	0.68

Michael McGovern

Research Analyst
BofAS
+1 415 676 3520
mmcgovern@bofa.com

Huiyu (Harvey) Qin

Research Analyst
BofAS
+1 917 864 5179
huiyu.qin@bofa.com

Stock Data

Price	9.83 USD
Price Objective	13.00 USD
Date Established	22-Feb-2024
Investment Opinion	C-1-9
52-Week Range	6.89 USD - 15.68 USD
Mrkt Val (mn) / Shares Out (mn)	1,917 USD / 195.0
Free Float	126.2%
Average Daily Value (mn)	9.52 USD
BofA Ticker / Exchange	LZ / NAS
Bloomberg / Reuters	LZ US / LZ.OQ
ROE (2024E)	53.0%
Net Dbt to Eqty (Dec-2023A)	-133.7%
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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iQprofileSM LegalZoom

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-20.3%	16.3%	18.1%	17.5%	9.5%
Return on Equity	22.0%	63.6%	53.0%	40.6%	27.7%
Operating Margin	-6.5%	5.2%	6.7%	9.3%	6.4%
Free Cash Flow	52	93	122	139	149

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	2.0x	1.3x	1.4x	1.3x	1.4x
Asset Replacement Ratio	1.0x	1.2x	1.4x	1.6x	1.3x
Tax Rate	NM	38.7%	21.4%	20.9%	21.2%
Net Debt-to-Equity Ratio	-132.8%	-133.7%	-130.0%	-115.3%	-117.7%
Interest Cover	-6.8x	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	621	668	719	798	851
% Change	8.0%	7.6%	7.6%	11.0%	6.6%
Gross Profit	422	446	490	549	583
% Change	7.1%	5.8%	10.0%	12.0%	6.1%
EBITDA	64	114	141	173	168
% Change	33.5%	79.6%	23.4%	22.8%	-2.9%
Net Interest & Other Income	(6)	10	6	6	6
Net Income (Adjusted)	37	99	116	140	133
% Change	NM	164.2%	17.1%	21.1%	-4.9%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(47)	28	42	63	47
Depreciation & Amortization	22	25	25	27	33
Change in Working Capital	12	14	23	21	30
Deferred Taxation Charge	(1)	5	0	0	0
Other Adjustments, Net	88	53	68	72	81
Capital Expenditure	(22)	(32)	(36)	(44)	(43)
Free Cash Flow	52	93	122	139	149
% Change	22.0%	79.3%	31.7%	14.2%	6.7%
Share / Issue Repurchase	(93)	(56)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(1)	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	189	226	348	488	637
Trade Receivables	13	12	14	16	23
Other Current Assets	39	38	16	18	26
Property, Plant & Equipment	31	48	84	128	171
Other Non-Current Assets	133	124	126	128	128
Total Assets	405	448	589	777	985
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	249	264	306	339	429
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	14	15	15	15	15
Total Liabilities	263	279	321	354	444
Total Equity	142	169	268	423	541
Total Equity & Liabilities	405	448	589	777	985

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Internet/e-Commerce

Company Description

LegalZoom is an online legal services provider aiming to reduce the complexity surrounding business formation and compliance. LegalZoom has a near term opportunity estimated at \$48bn+ (Serviceable Addressable Market). Online penetration is still very low at around 10% suggesting ample room for growth.

Investment Rationale

LegalZoom is well positioned, in our view, given 1) inefficiencies in the offline legal services related to business formation and compliance, 2) accelerating growth in subscription revenue and customer lifetime value, 3) online legal services penetration is very low. However, we think that growth is largely priced in and do not expect significant multiple expansion from here.

Stock Data

Average Daily Volume 968,886

Quarterly Earnings Estimates

	2023	2024
Q1	0.07A	0.12E
Q2	0.11A	0.16E
Q3	0.13A	0.15E
Q4	0.14A	0.16E

Exhibit 1: Actual vs. BofA

LZ reported Rev of \$159mn vs. Street at \$157mn, Formations at 113k vs. Street at 126k, Gross Profit of \$103mn vs. Street at \$102mn, and \$33mn in EBITDA vs. Street at \$29mn

Actual vs. BofA	4Q23A		
Segmental Revenues	Actual	BofA Est.	Diff.
Transaction	51,923	51,026	897
<i>y/y growth</i>	-6%	0%	-7%
Subscription	106,740	100,504	6,236
<i>y/y growth</i>	17%	11%	6%
Partnership Revenue	5,225	5,225	-
<i>y/y growth</i>	7%	7%	0%
Total Revenue	158,663	156,755	1,908
<i>y/y growth</i>	8%	7%	1%
Cost of Revenue	50,851	52,513	(1,662)
Gross Profit	107,812	104,242	3,570
<i>% Margin</i>	68%	67%	1%
Sales and marketing	43,357	47,810	(4,453)
Research and development	15,792	14,108	1,684
General and administrative	15,225	12,540	2,685
Total Operating Expenses (Non-GAAP)	74,374	74,459	(85)
Operating Income (GAAP)	6,854	8,151	(1,297)
Net Income (GAAP)	7,382	6,492	890
<i>% Margin</i>	5%	4%	1%
GAAP diluted EPS	0.04	0.03	0.00
Adj. EBITDA	29,186	29,783	(597)
<i>% Margin</i>	18%	19%	-1%
Key Metrics			
LZ Business Formations (000)	113	127	(14)
<i>y/y growth</i>	-2%	10%	-12%
Subscription ARPU	277.00	260.58	16.42
<i>y/y growth</i>	7%	1%	6%

Source: BofA Global Research estimates, company report

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Exhibit 2: Estimates Changes

For 2025, we are now at Revenue/EBITDA of \$798mn/\$173.5mn vs. \$820mn/\$170mn prior.

Estimates Changes	1Q24E			FY 2024E			FY 2025E		
Segmental Revenues	New	Old	Change	New	Old	Change	New	Old	Change
Transaction	69,577	64,106	5,471	258,632	243,546	15,086	275,787	260,070	15,717
<i>y/y growth</i>	2%	3%	-1%	1%	5%	-4%	7%	7%	0%
Subscription	105,742	110,935	(5,193)	460,748	461,009	(262)	522,675	534,771	(12,096)
<i>y/y growth</i>	8%	14%	-6%	12%	14%	-2%	13%	16%	-3%
Partnership Revenue	6,705	6,705	-	24,436	24,436	-	25,657	25,657	-
<i>y/y growth</i>	5%	5%	0%	5%	5%	0%	5%	5%	0%
Total Revenue	175,319	181,746	(6,427)	719,379	728,991	(9,611)	798,462	820,498	(22,036)
<i>y/y growth</i>	6%	10%	-4%	8%	11%	-3%	11%	13%	-2%
Cost of Revenue	57,855	57,250	605	228,881	229,632	(752)	249,325	254,354	(5,030)
Gross Profit	117,464	124,496	(7,032)	490,499	499,359	(8,860)	549,137	566,144	(17,006)
<i>% Margin</i>	67%	69%	-2%	68%	69%	0%	69%	69%	0%
Sales and marketing	53,297	59,067	(5,770)	202,089	216,892	(14,804)	218,042	253,396	(35,354)
Research and development	18,058	18,175	(117)	72,993	73,428	(436)	78,859	66,601	12,258
General and administrative	19,285	14,903	4,382	74,198	70,127	4,071	78,788	76,433	2,355
Total Cash Operating Expenses	90,640	92,145	(1,505)	349,279	360,447	(11,169)	375,689	396,430	(20,741)

Exhibit 2: Estimates Changes

For 2025, we are now at Revenue/EBITDA of \$798mn/\$173.5mn vs. \$820mn/\$170mn prior.

Operating Income (GAAP)	5,084	9,814	(4,730)	48,041	44,521	3,520	74,244	67,794	6,451
Net Income (GAAP)	5,028	7,572	(2,544)	42,277	34,500	7,777	63,240	53,118	10,121
% Margin	3%	4%	-1%	6%	5%	1%	8%	6%	1%
GAAP diluted EPS	0.03	0.04	(0.01)	0.22	0.18	0.04	0.32	0.27	0.05
Adj. EBITDA	26,824	32,351	(5,527)	141,220	138,911	2,309	173,448	169,714	3,735
% Margin	15%	18%	-3%	20%	19%	1%	22%	21%	1%

Source: BofA Global Research estimates, company report

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Price objective basis & risk

LegalZoom (LZ)

We apply a 12x 2025E EBITDA multiple, a slight discount to our comp group at 14x, due to LZ's lower growth profile vs. peers (peer median growth at 12% for 2024E Revenue). Based on our 12x multiple and \$173mn in EBITDA for 2025, we get to an Enterprise Value of \$2.1bn. Adding Net Cash (zero debt), we get to a market cap of \$2.6bn, which translates to a share price of \$13 based on 196mn fully diluted shares outstanding.

Potential upside risks: 1) subscription revenue growth acceleration with wide adoption of new subscription products, and 2) higher-than-expected return on customer acquisition investment.

Potential downside risks: 1) a slowdown in the macro economy reduces small business formation, 2) subscription revenue growth decelerates as new products fail to gain traction, and 3) expected investments, which could impact margins.

Analyst Certification

I, Michael McGovern, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post



US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
UNDERPERFORM				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA
RSTR				
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of *iQmethod* are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

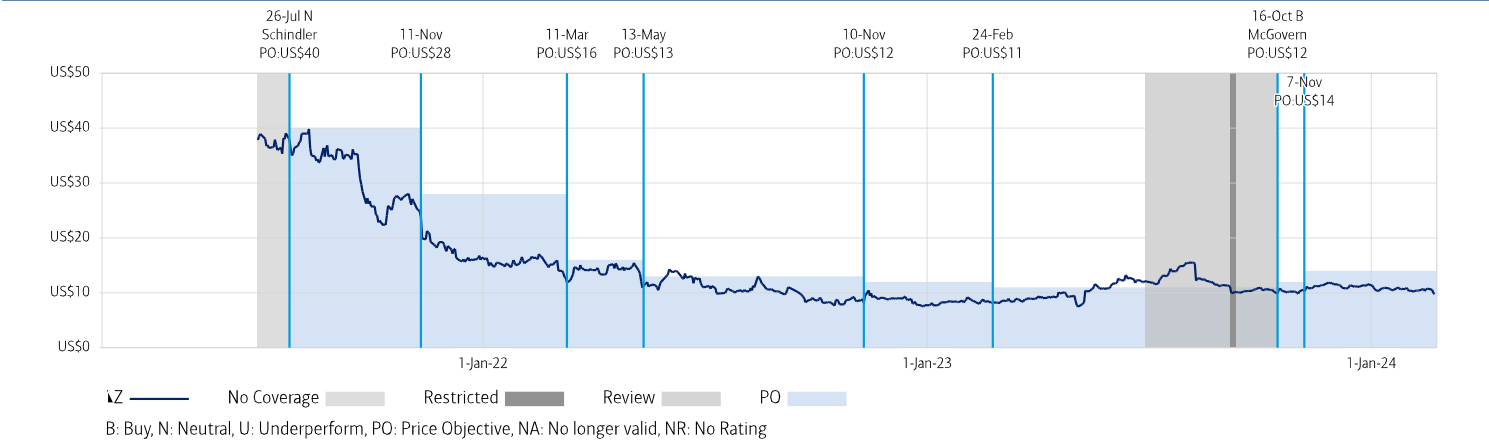
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LegalZoom (LZ) Price Chart



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Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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