

VeriSign (\$VRSN): The Internet’s Toll Bridge at a Premium Price

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1. Executive Summary

We see VeriSign as a rare type of asset: a government-sanctioned monopoly that quietly underpins a large part of the global digital economy. As the exclusive registry for the .com and .net domains, it administers roughly 165 million domains, effectively operating a toll bridge across which nearly all professional internet activity must travel. (see Figure 1).

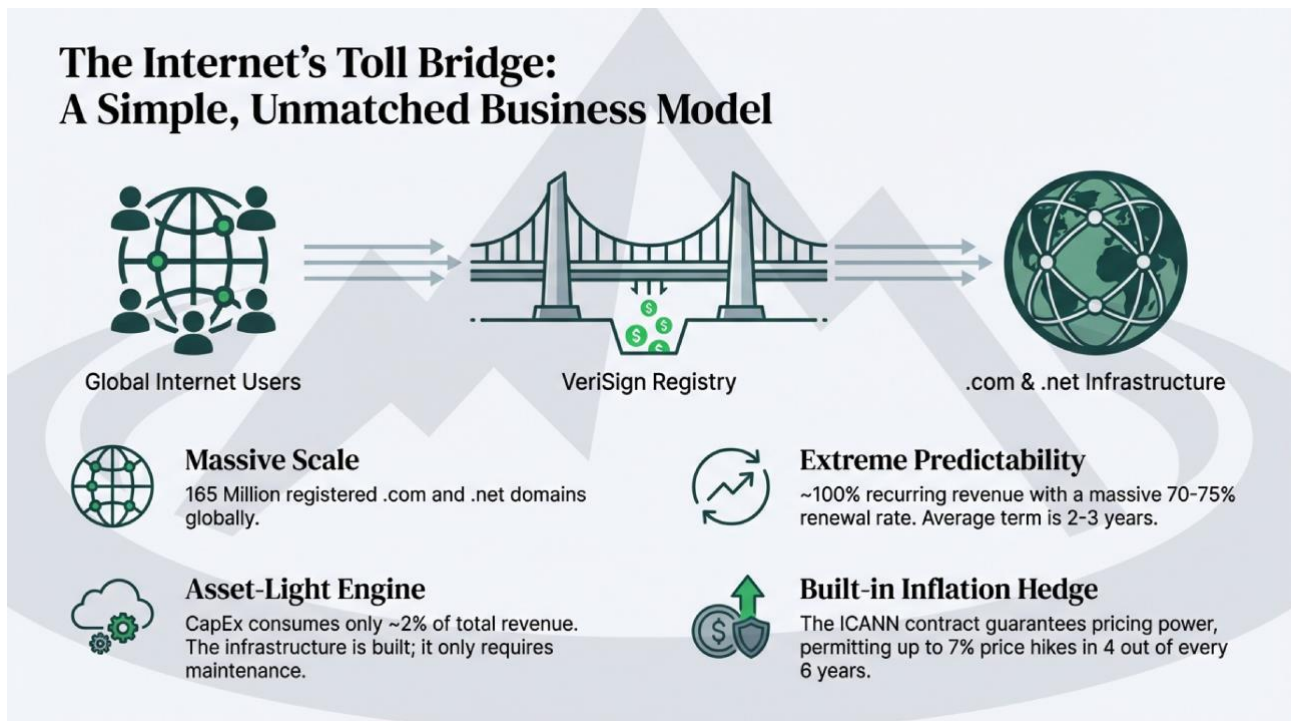


Figure 1. VeriSign’s registry ‘toll bridge’ business model

Key takeaway: As the exclusive registry for .com and .net, VeriSign administers roughly 165 million domains and captures recurring ‘toll’ economics.

This is a business model built for durability and efficiency: a nearly 100% recurring revenue stream, 69.5% EBITDA margins, and 64.5% Free Cash Flow (FCF) margins. At MoatPeak, we view VeriSign as a textbook defensive quality compounder—a business that almost “mints” cash while requiring very little capital to sustain or grow. (see Figure 2).

Exceptional Profitability Driven by Asset-Light Economics



Balance Sheet Context

The Negative Equity Anomaly: Book equity is -\$2.15 Billion. This is not operational distress; it is the mathematical result of returning \$16B+ to shareholders via aggressive buybacks over 15 years.

Leverage is Highly Manageable: Net Debt to EBITDA is 1.05x (\$1.21B Net Debt / \$1.15B TTM EBITDA). Interest Coverage is an incredibly safe 14.6x. Debt service is a non-issue.

Figure 2. Asset-light economics and profitability profile

Key takeaway: VeriSign's near-100% recurring revenue model supports 69.5% EBITDA margins and 64.5% FCF margins with minimal ongoing capital intensity.

However, even the best business can become a poor investment if bought at the wrong price. With the stock trading at \$227.94 versus our consensus fair value of \$212.12, we currently view it as Quality at a Full Price, not a bargain. For long-term holders, the defining storyline will center on the 2026 price freeze and the subsequent ICANN contract renewal, which will ultimately determine whether VeriSign can preserve its unique pricing power. This stability is the company's greatest strength—but at today's valuation, it also acts as a ceiling on upside. (see Figure 3).

The Executive Verdict: A Quality Compounder Requiring Patience



Figure 3. Executive verdict: quality, priced at a premium to fair value

Key takeaway: At \$227.94 versus a \$212.12 consensus fair value, our view is ‘quality at a full price’—upside is constrained until valuation or catalysts improve.

2. US Market Impact: Equities, Bonds, and the Dollar

The US market backdrop is characterized by a gradual but persistent rotation out of speculative, high-growth tech and into high-conviction, defensive quality compounders. Within this shift, VeriSign fits exceptionally well, providing a relatively safe harbor for capital in both the S&P 500 and Nasdaq.

With a beta of 0.75, VeriSign offers lower volatility than much of the broader technology sector. We closely track the US 10Y Treasury, as the current 3.96% risk-free rate directly shapes VeriSign’s 8.06% Weighted Average Cost of Capital (WACC). For investors comparing long-duration Treasuries through \$TLT or \$IEF, VeriSign’s ~5.1% FCF yield represents a 1.14% spread over the risk-free rate. While that spread is not large, it is backed by a powerful inflation hedge: under its contract with ICANN, VeriSign is allowed 7% annual price increases in four out of every six years, translating into a cumulative price increase of roughly 31% per six-year cycle.

A stronger US Dollar can be a headwind for many global companies, but VeriSign is partially insulated. Its contracts are predominantly US-based, and the .com domain retains “gold standard” status worldwide. As a result, its revenue profile remains impressively resilient, even when currency volatility hurts more globally exposed peers.

3. Global Perspective: Europe and Emerging Markets

The global internet economy is now clearly splitting into two tracks. On one side, North America and Europe are approaching domain saturation, reflected in slowing domain growth of around 1.5–2%. On the other, a powerful wave of digital acceleration in the East and in emerging markets is creating the next leg of growth. (see Figure 4).

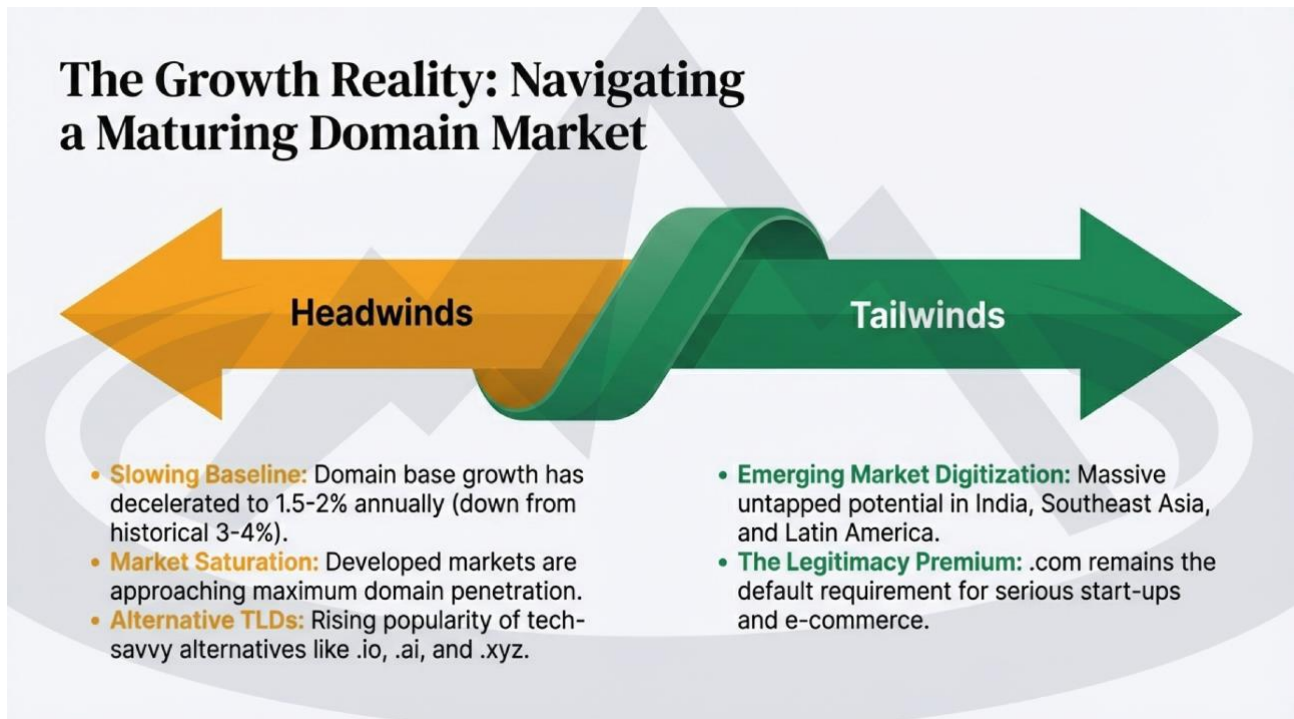


Figure 4. Growth reality: maturing developed markets vs emerging tailwinds

Key takeaway: Developed markets are nearing saturation with domain growth slowing to ~1.5–2%, while emerging markets offer the next leg of volume growth for .com.

We believe the real volume opportunity for the .com registry over the coming decade lies in India, Southeast Asia, and Latin America. As startups, SMEs, and content creators in these regions seek a credible online identity, demand for .com remains strong. Despite the rise of niche TLDs such as .ai and .io, .com still signals business legitimacy on a global scale.

The structural advantage for VeriSign is that the marginal cost of adding new registrations is close to zero. With CapEx at only ~2% of revenue, incremental global growth largely drops straight to the bottom line. This operating leverage allows international expansion to convert directly into margin enhancement, reinforcing VeriSign's role as a premier internet utility rather than a typical tech vendor. (see Figure 5).

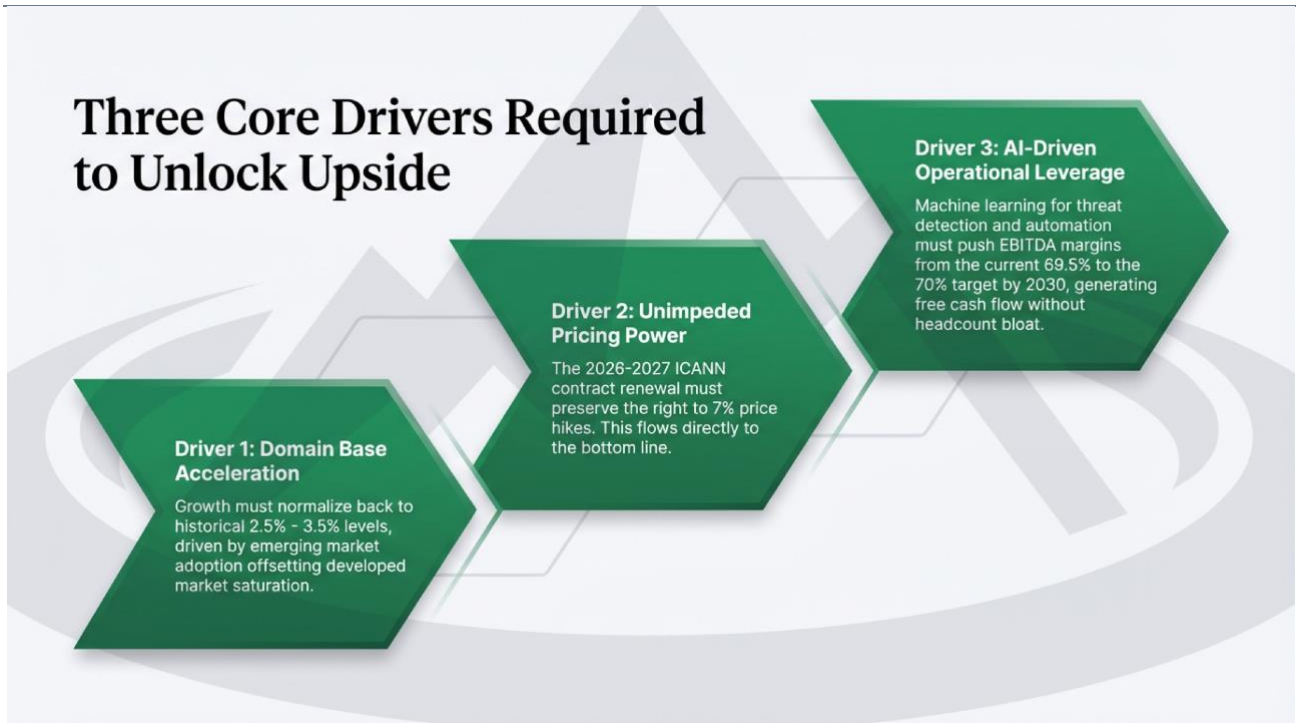


Figure 5. Core drivers required to unlock upside

Key takeaway: Upside depends on re-accelerating domain base growth and preserving contractual pricing power, with operating leverage allowing incremental growth to flow through to margins.

4. Sectoral Movements and Actionable Tickers

At MoatPeak, our Quality Scorecard is designed to distinguish high-margin monopolies from more commoditized technology services. On this framework, VeriSign earns a Composite Quality Score of 7.5/10 (Strong). Its 49.8% net margin significantly exceeds the broader tech sector median of approximately 35%. (see Figure 6).

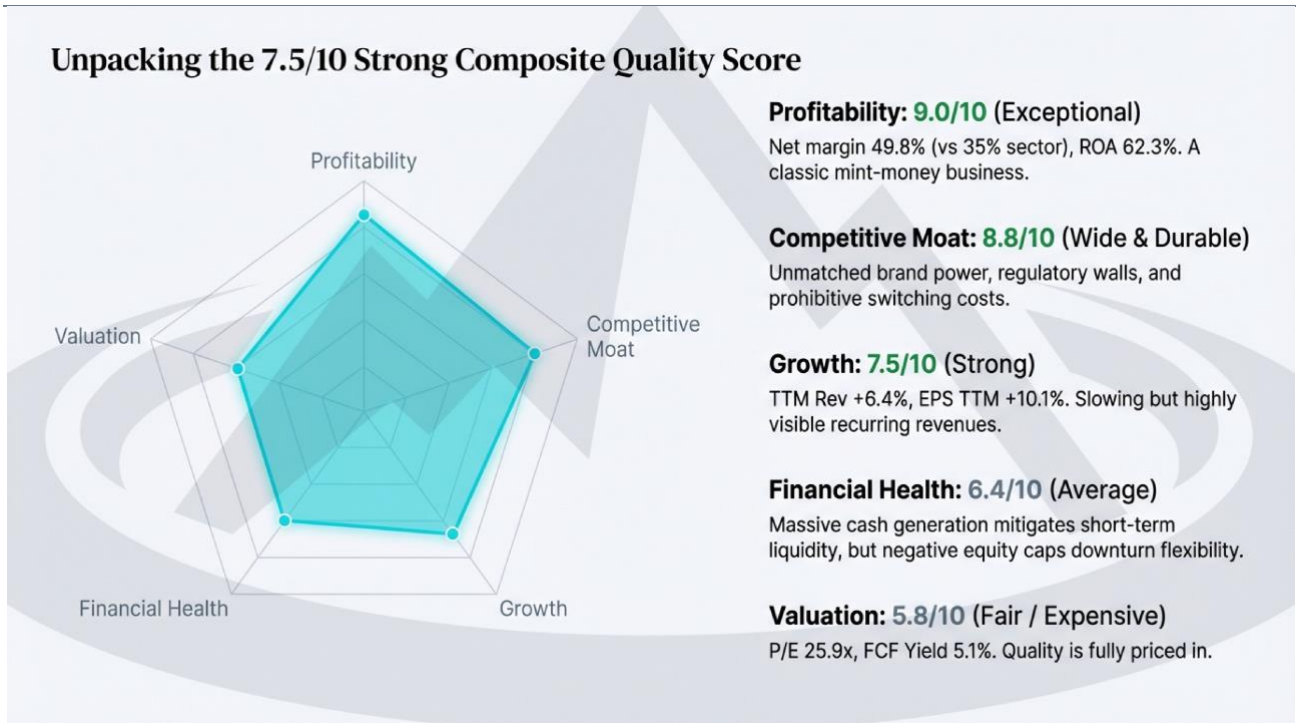


Figure 6. MoatPeak Quality Scorecard snapshot

Key takeaway: Our framework scores VeriSign at 7.5/10, supported by a 49.8% net margin versus a ~35% sector median and an 8.8/10 moat rating.

Ticker Monitoring: \$VRSN

At \$227.94, VeriSign trades at a valuation that leaves little room for operational missteps. We define a Zone of Interest between \$190 and \$205, where a meaningful margin of safety begins to appear. We also want to be explicit about the company’s reported negative equity of -\$2.15 billion. We do not view this as a sign of financial stress. Instead, it reflects a long-running capital allocation decision: VeriSign has returned over \$16 billion to shareholders via buybacks. By swapping accounting equity for a smaller share count, the company has driven a 3-year EPS CAGR of ~12%, well ahead of its revenue growth.

Ticker Monitoring: \$TLT

We track the iShares 20+ Year Treasury Bond ETF (\$TLT) as a practical proxy for the long-term discount rate. As a mature, high-margin franchise, VeriSign’s valuation is highly sensitive to interest rate moves. Any sustained rise in long-dated yields is likely to compress its valuation multiples. Paradoxically, such pressure is exactly what could create the entry point we are waiting for.

5. The Grey Rhinos: Underappreciated Signals

We frame key risks to VeriSign through the lens of “Grey Rhinos”—highly probable, high-impact events that are visible but often underweighted by investors. For VeriSign, the most important of these is the upcoming ICANN contract renewal in 2026–2027. (see Figure 7).

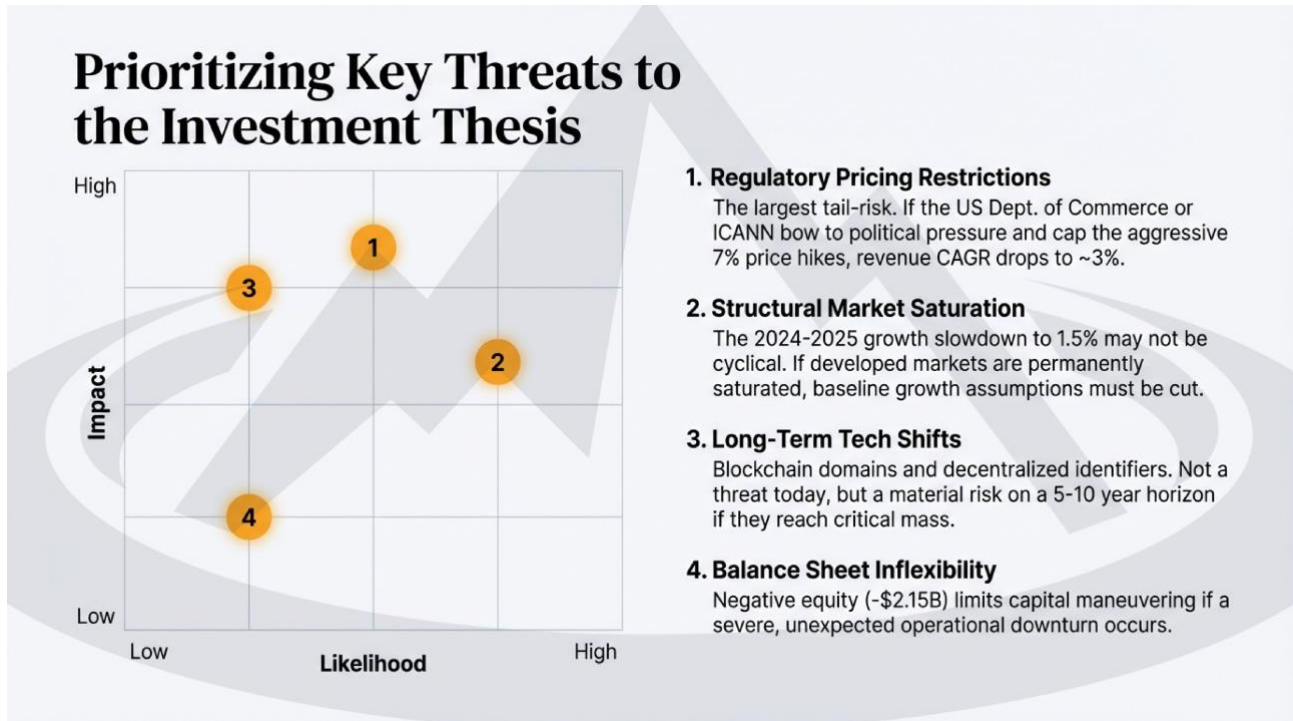


Figure 7. Key threats mapped by likelihood and impact

Key takeaway: The primary tail-risk is regulatory constraint on the 7% pricing mechanism; we also monitor saturation dynamics, long-term tech shifts, and balance-sheet flexibility.

The ICANN Renewal

This renewal is the central catalyst on the horizon. Any regulatory intervention that constrains the current 7% annual pricing mechanism would undermine the long-term bull case. VeriSign’s negotiating position is strong, thanks to its critical role in global internet infrastructure, but we cannot ignore the persistent political incentive to curb monopoly pricing. This remains a key tail risk. (see Figure 8).

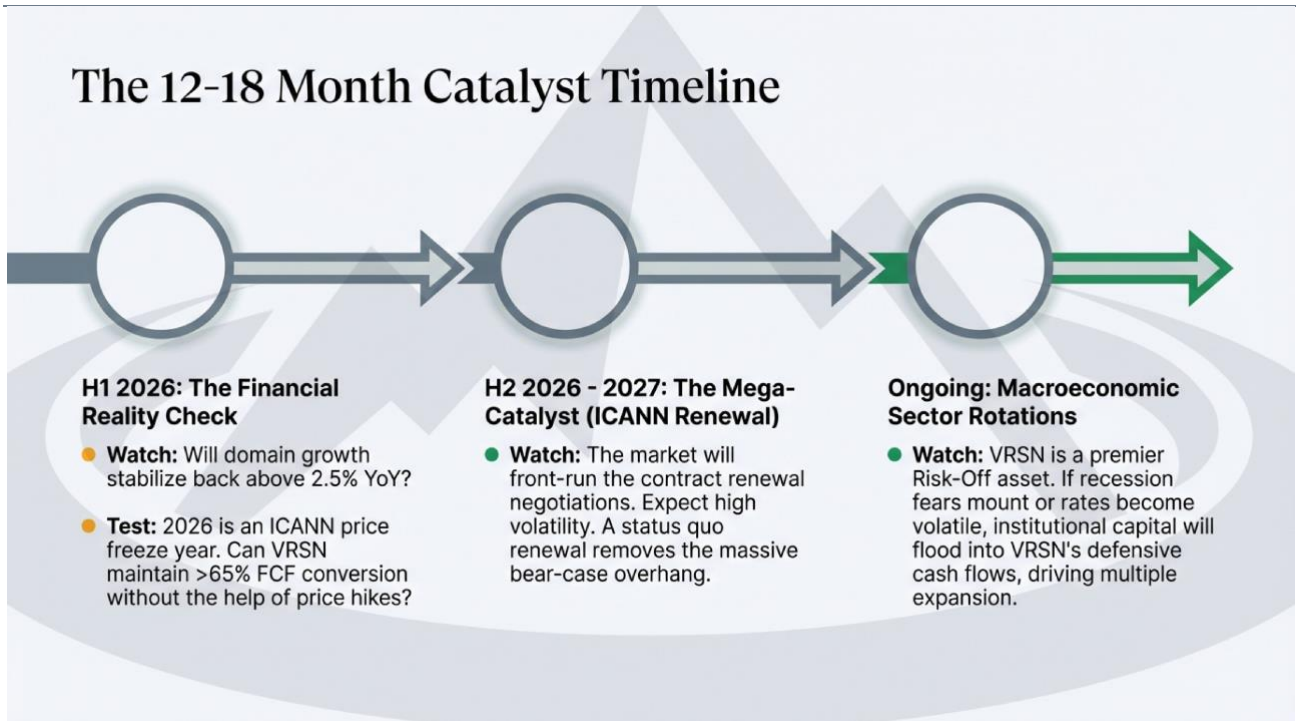


Figure 8. 12–18 month catalyst timeline: price freeze, renewal negotiations, and macro regime shifts

Key takeaway: The 2026 price freeze and the 2026–2027 ICANN renewal are the pivotal tests of VeriSign’s ability to preserve pricing power.

Technological Shifts and the Infrastructure of Trust

Blockchain-based domains are often cited as a potential secular threat. We do not subscribe to the simplistic view that decentralized naming systems will “kill” VeriSign. A domain registry is not only a technical system; it is also an infrastructure of trust, policy, and global coordination.

Even if Web3 scales meaningfully, traditional domains will remain the primary gateway for enterprises, institutions, and mainstream users. The risk we see is not sudden disruption, but rather the prospect of a slow erosion of the .com moat over a 5–10 year horizon, should alternative systems gain niche traction.

6. Strategic Scenarios and Probabilities

We apply an Inversion mental model to VeriSign’s future. Instead of starting from what must go right, we ask what would need to go wrong for this investment to fail. Our valuation is particularly sensitive to WACC and Terminal Growth (TG) assumptions. (see Figure 9).

Pricing the Monopoly: Valuation Sensitivities and Multiples

Current Price:	\$227.94
Consensus Fair Value:	\$212.12
P/E Implied Value:	\$229.06
DCF Valuation:	\$203.46

Methodology 1: DCF Valuation (\$203.46)

- WACC: 8.06% (Risk-free 3.96%, Beta 0.75)
- Terminal Growth: 2.5% (Perpetual business; 79% of EV is in Terminal Value)
- Revenue CAGR: 7.5% assumed through 2030

Methodology 2: Relative Valuation (\$220.78)

- P/E Implied Value: \$229.06 (Target 26.0x vs Sector 28.0x)
- EV/EBITDA Implied Value: \$212.50 (Sector Median 18.0x)

Analyst Note: VRSN trades at a ~7.6% P/E discount (penalizing slow growth) but a ~6.8% EV/EBITDA premium (rewarding phenomenal business quality).

Figure 9. Valuation sensitivities and cross-checks (DCF vs relative)

Key takeaway: Our downside/upside skew is driven by discount-rate and terminal-growth assumptions; at today’s price, valuation leaves limited room for execution risk.

Instead of starting from what must go right, we ask what would need to go wrong for this investment to fail (see Figure 10).

Probability-Weighted Scenario Analysis

Bull Case (25% Prob)	Base Case (50% Prob)	Bear Case (25% Prob)
Target: \$338.24 (+48%)	Target: \$203.46 (-10.7%)	Target: \$108.52 (-52%)
Assumptions: 8% Rev CAGR, 72% EBITDA Margin, 3% Terminal Growth.	Assumptions: 7.5% Rev CAGR (2.5% domain + 5% pricing), 70% Margin, 2.5% Terminal Growth.	Assumptions: 3% Rev CAGR, 67% Margin, 1.5% Terminal Growth.
Driver: Favorable ICANN renewal, strong emerging market adoption.	Driver: Business as usual; domain growth stabilizes at the lower historical bound.	Driver: ICANN strips pricing power; domain saturation deepens.

Probability-weighted FV: \$213.42. Expected Total Return is -4.6% over 12 months (inclusive of 1.4% dividend yield). Risk/reward leans negative.

Figure 10. Scenario range summary (bull/base/bear)

Key takeaway: Our scenarios span \$338.24 (25%), \$203.46 (50%), and \$108.52 (25%); after adjusting for valuation, we estimate a -4.6% expected 12-month total return.

Our valuation is particularly sensitive to WACC and Terminal Growth (TG) assumptions.

Scenario	Fair Value	Probability	WACC	TG	Key Assumptions
Bull Case	\$338.24	25%	6.56%	3.0%	8% Revenue CAGR, 72% EBITDA margin, favorable ICANN renewal
Base Case	\$203.46	50%	8.06%	2.5%	7.5% Revenue CAGR, 70% EBITDA margin, status quo ICANN terms
Bear Case	\$108.52	25%	9.56%	1.5%	3% Revenue CAGR, 67% EBITDA margin, regulatory pricing caps

Invalidation Points

We would reassess our thesis immediately if EBITDA margins fell below 65% or if domain base growth remained below 2% for several consecutive quarters. For us, these are the clearest leading indicators of a weakening moat and deteriorating economics. (see Figure 11).

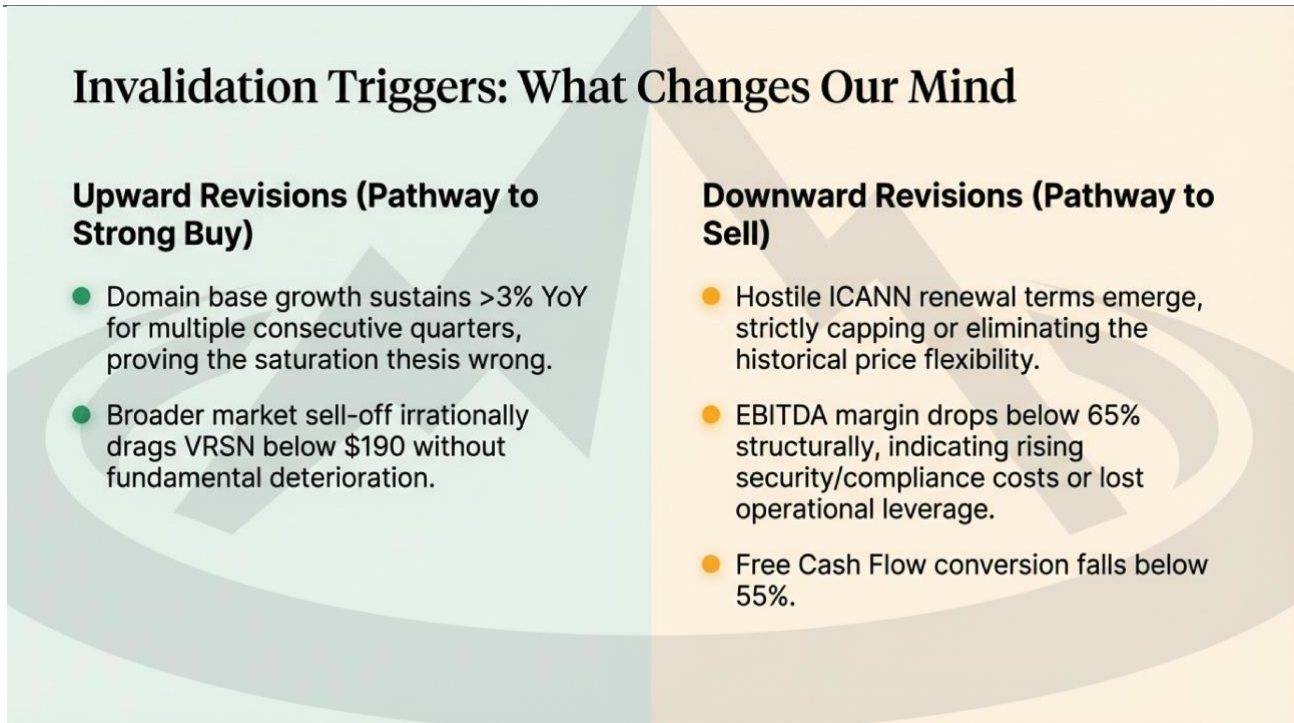


Figure 11. Invalidation triggers: what would change our mind

Key takeaway: We would reassess if EBITDA margins fall below 65% or if domain base growth stays below 2% for multiple consecutive quarters.

7. MoatPeak Insights: The Decision Engine

When we apply Capital Cycle Theory to VeriSign, its uniqueness becomes clear. In most industries, high returns attract competition, which over time pushes returns back toward the cost of capital. In VeriSign's case, regulatory barriers and exclusive ICANN contracts effectively block capital from entering the core registry business.

The result is a structural money-minting environment where traditional metrics like ROIC are less informative, in part because of the company's negative equity position driven by prolonged buybacks rather than operating weakness.

The Moat Analysis

We rate VeriSign's competitive moat at 8.8/10 (Wide and Durable). The switching costs are extraordinarily high: moving the .com registry away from VeriSign would risk catastrophic disruption to the global internet. This is not a realistic scenario under normal political or commercial conditions. (see Figure 12).

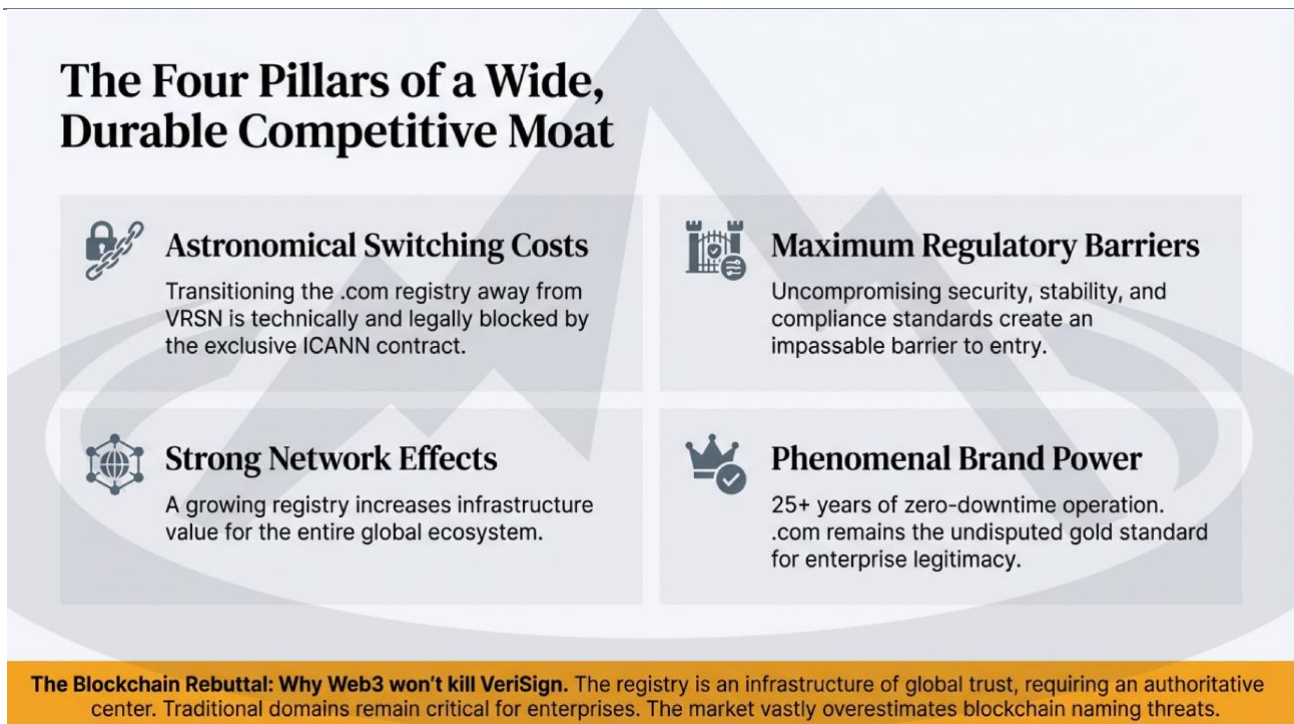


Figure 12. Four pillars supporting a wide, durable moat

Key takeaway: Exclusive ICANN contracts and prohibitive switching costs underpin a wide moat; disruption risk is more political than technical in our view.

At the same time, the stock's low volatility, combined with consistent share repurchases, creates a kind of reflexivity loop that reinforces investor confidence and supports the valuation—until or unless an exogenous shock intervenes.

The Full Price Verdict

At a P/E of 25.9x, we see no meaningful margin of safety in the current price. Our expected 12-month total return is -4.6%, once we adjust for today's valuation levels. We therefore draw a clear line between a Great Business and a Great Investment. At the current price, VeriSign is firmly the former, but not yet the latter.

8. The Retail Investor Roadmap: 2026 and Beyond

VeriSign requires second-order thinking. If domain growth slows—if less “traffic” crosses the bridge—the company must raise the toll (pricing) to preserve its compounding trajectory. This dynamic is why the 2026 price freeze is such an important real-world test of the underlying business quality and management discipline. (see Figure 13).

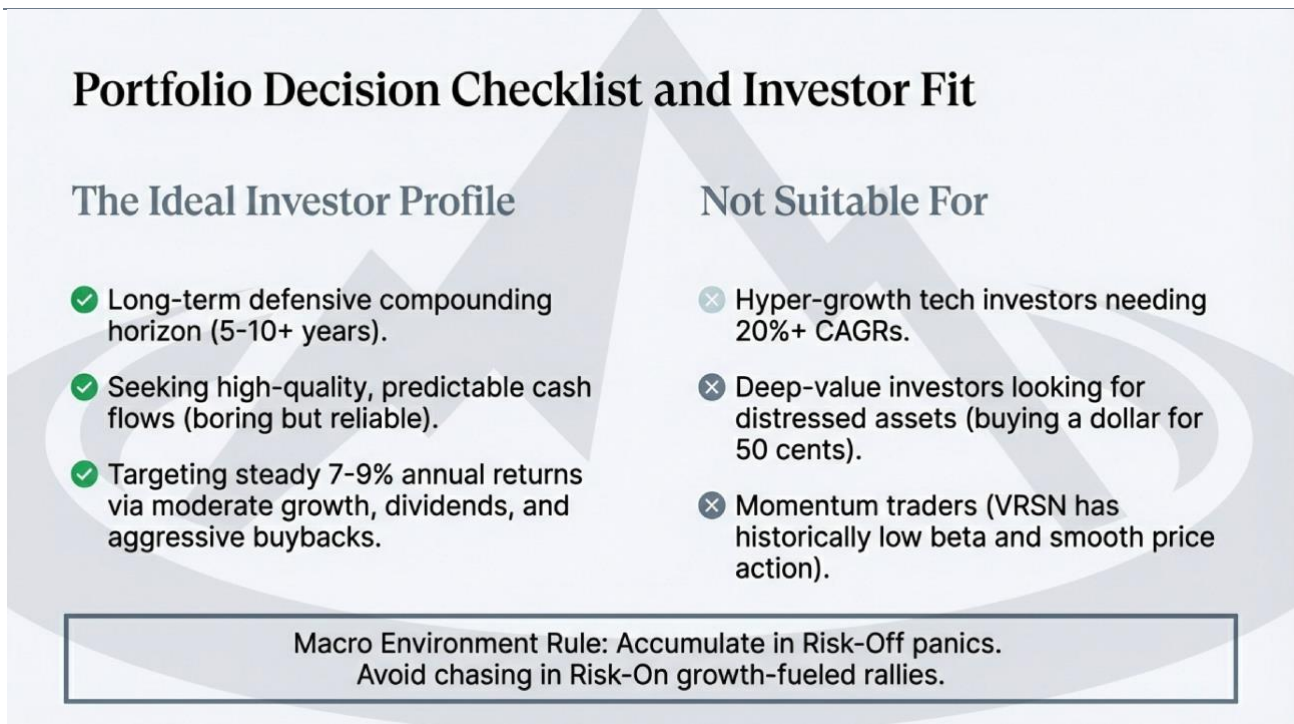


Figure 13. Investor fit and portfolio checklist

Key takeaway: We emphasize patience and disciplined entry points rather than chasing valuation; the next decision hinges on price action and the 2026–2027 catalyst path.

Actionable Strategy

Entry and Accumulation Zones

We define a Zone of Interest at \$190–\$205. For investors seeking a higher margin of safety, we see a Zone of Active Accumulation at \$175–\$190. We would regard purchases within these ranges as a strong long-term buy for investors focused on quality compounders.

Management of Existing Positions

For investors with a cost basis below \$200, we currently recommend HOLD. If the share price moves into the Zone of Partial Fixing at \$230–\$250, we believe it is prudent to consider trimming positions. Above that, we define an Exit Zone at \$250+, where the valuation multiple becomes difficult to justify given the company's growth profile. (see Figure 14).



Figure 14. Target price zones and action matrix

Key takeaway: We prefer accumulation in the \$190–\$205 zone (and \$175–\$190 for higher margin-of-safety), while trimming becomes prudent in the \$230–\$250 range and above \$250+.

Final Reflection

For VeriSign, time is the ally of a wonderful business, but price is the constraint for a disciplined investor. We are prepared to remain patient, allowing volatility, interest rates, or regulatory fears to eventually deliver a more attractive entry point.

Until then, we recognize VeriSign as an outstanding internet utility—one that we would be eager to own, at the right price.

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