GoDaddy Inc. Q1 2022 Earnings Prepared Remarks

Aman Bhutani, GoDaddy CEO

Thank you, Christie, and thank you all for joining us today.

## Intro

At GoDaddy, our mission is to empower entrepreneurs everywhere, making opportunity inclusive for all. With the secular trends of entrepreneurship, coupled with accelerating online presence and commerce, we believe GoDaddy's role is to help our micro and small business customers take advantage of the largest opportunity in front of them – the combination of the internet and commerce. We do this by helping customers establish and maintain their digital identity. Our tools help customers extend their web presence to social media and marketplaces and into their in-store experience giving them ubiquitous presence. And we are bringing them to the world of connected commerce by enabling every surface for them with commerce. This mission has never been more important and GoDaddy's combination of assets makes us a unique and differentiated player in the market.

Together digital identity, ubiquitous presence and connected commerce form the Entrepreneur's wheel representing our customer's needs and how we meet and exceed them. We shared this new framing for GoDaddy at our Investor Day in February. We also presented a three-year plan, and we are off to a good start. In the first quarter of 2022, revenue grew 11 percent year-over-year, and normalized EBITDA grew faster, up 18 percent year-over year.

While we all face a fluid macro environment, we are focused on what we can control and delivering on expectations for our customers and shareholders. We are keeping a close eye on the war in Ukraine. The financial impacts of the war on our business are limited but we remain critically concerned for the safety of our contractors in the area. A prolonged war will likely mean a bigger disruption in the work and delays in some product releases and rollouts as we ramp resources in other areas.

We are also closely monitoring the uneven demand patterns as a result of the ongoing COVID-19 pandemic and inflation. And the strength of the US dollar is leading to FX headwinds across industries. Our business model is durable and offers us opportunities to adapt and be nimble. Our leadership team is focused on our three-year plan and mitigating short term headwinds.

Over the last several years, we have strengthened the quality of our revenue by delivering on our strategy to attract customers with higher lifetime value. Through disciplined execution we have improved our renewals experience, and as a result, we have continued to drive modest improvements in our already high retention rates. An important data point that I am happy to share is that the 15-month renewal rate from the 2020 cohort of customers continues to be strong.

Our commitment to our strategy is clearly highlighted in the consistency of our priorities. Our three strategic priorities have been, and continue to be – first, driving commerce through presence, second delivering for GoDaddy Pros and third, innovating in domains. We covered our priorities in detail at Investor Day, so I will provide brief comments on each of them today.

## Driving Commerce through Presence

On our first priority, we delivered many product launches in the last couple of months and the one I want to highlight is the launch of a new higher tier Commerce Plus plan. The new offering includes increased customer value in the form of simplified taxes, unlimited product listings and

higher limits on many features – from marketplace orders to email campaigns. The data is early and encouraging, 80% of sales in this new tier are from new purchases. And looking across our Commerce plans, 70% of customers are now choosing GoDaddy Payments, up from the 60% we shared in February. Annualized GMV across the GoDaddy ecosystem grew 20 percent year over year, to $24 billion, primarily driven by offline point-of-sale.

## Delivering for GoDaddy Pros

For GoDaddy Pros, our focus continues to be to create best in class presence and commerce offerings and tooling for Managed WordPress. We continue to add more users to the Hub and our teams are working hard to increase rates of engagement. Our integration of Pagely continues at a good pace and we are excited about upcoming releases which include a commerce offering and a new onboarding flow for Managed WordPress. I am looking forward to sharing more about these new capabilities once they are launched.

## Innovating in Domains

On innovation in domains, in February we shared that we were going to bring to market an innovative new product called Payable Domains. I am happy to share that we have started to test Payable Domains with a small percentage of customers in the U.S. It is too early to comment on how customers will receive and adopt this product, but we are eager to experiment with it as quickly as possible.

## Closing Remarks

In closing, I want to remind you that GoDaddy has built a durable business with a history of solid performance in all kinds of economic environments. By accelerating the rate of experimentation and innovation, we have continued to improve the quality of our products and entered new markets, improving attach and ARPU and driving shareholder value. Our strength comes from our large customer base, extraordinary customer and revenue retention, the power of our existing cohorts, the strong competitive advantages serving the micro and small business customer, a clear three-year plan and a disciplined leadership team and workforce committed to our mission.

With that, here's Mark.

## Mark McCaffrey, GoDaddy CFO

Thanks Aman and thank you everyone for joining us today. We are excited to share our strong Q1 results which highlight our execution towards the targets we shared at our recent Investor Day. Our results demonstrate our focus on delivering a balanced combination of durable top-line growth, profitability at scale and robust cash flow, and our performance shows GoDaddy's business resiliency. We are pleased that we were able to deliver a strong first quarter while we actively manage through the uncertain global macro environment.

In Q1, total **Revenue** grew to $1 billion, which represents 12 percent growth year-over-year on a constant currency basis and 11 percent, year-over-year, on a reported basis. Within total revenue, **international revenue** grew 10 percent year-over-year, on a constant currency basis. As shared earlier this year, we updated the lens by which we report the pillars of our revenue. This change transitioned our reporting from three revenue segments into two new segments: applications & commerce and core platform. This gives us the framework of how we will talk about our business and opportunities going forward.

Applications & commerce revenue, which includes presence and applications solutions, grew 16 percent, year-over-year, coming in at the high end of our guidance range from February. Our presence products such as Websites + Marketing contributed to this growth. And, as Aman mentioned earlier, we drove great traction with the attach of our payments solution, which will show up in this line item as it becomes more meaningful.

The ARR for applications and commerce grew 14 percent year-over-year to $1.2 billion. ARR from our "Create and Grow" group of products, which includes Websites + Marketing, Managed WordPress, Sellbrite, and GoDaddy Studio grew 13 percent year-over-year to $410 million. Lastly, annualized GMV across the GoDaddy ecosystem was approximately $24 billion, growing 20 percent year-over-year. We achieved growth across all channels, primarily driven by offline point-of-sale.

Core platform revenue, which includes domains, hosting and security products, grew 9 percent year-over-year, delivering above our February guide with 40% of the increase driven by aftermarket. ARR for Core Platform grew 5 percent year-over year to $2.2 billion. As a reminder, aftermarket performance does not impact ARR.

Q1 **Bookings** were $1.16 billion growing over 7 percent on a constant currency basis and 6 percent on a reported basis against tough comparisons from the strong year ago quarter. Additionally, Q1 bookings grew 10 percent sequentially against our largest ever Q4 quarter. Applications and commerce bookings grew 9 percent year-over-year, and core platform bookings grew 5 percent, year-over-year.

**Normalized EBITDA** grew 18 percent, year-over-year, to $226 million, at a 23 percent margin representing over a point of margin expansion compared to the same period last year, and bringing our Normalized EBITDA margin within the 23 to 24 percent guide we outline at Investor Day.

Our Technology and Development expenses increased as a percent of revenue this quarter as we focused on building our commerce and innovation strategies. Additionally, as we continued re-opening offices in Q1, our G&A expenses also increased as a percentage of revenue, while remaining below historical levels. We drove leverage in our marketing spend, based upon continued execution of the formula outlined at Investor Day.

Additionally, during Q1 we faced inflation pressures, primarily in the form of increasing energy and cloud infrastructure expenses. Currently, we have medium- term contracts and FX hedges to mitigate some of the foreseen impacts. We expect these inflation-related impacts to continue throughout 2022, and we will monitor and proactively address our exposure in these areas.

**Unlevered Free Cash Flow** for the quarter was $287 million, growing 7 percent year-over-year, driven by strong profitability.

Additionally, during the quarter, we began executing against our announced $3 billion authorized share repurchase through an initial $750 million accelerated share repurchase, or ASR, expected to be completed in May. Through Q1, we repurchased an initial 6.5 million shares, reducing our total share count by 4 percent since year end, bringing our free cash flow per share to $5.25 on a trailing twelve-month basis, versus prior year cash flow per share of $4.51, for an increase of 16 percent.

## Balance Sheet

On the balance sheet, we finished Q1 with $743 million in cash and total liquidity of $1.3 billion. Net debt stands at $3.2 billion, at the midpoint of our targeted range of 2 to 4 times.

## Outlook

Moving on to our outlook, given the solid start to our year and the predictability of our model, based on what we know now, we are comfortable with our full year 2022 outlook provided in February. Having said that, we are not immune to the current macro-economic environment which increases our short-term exposure to foreign currency and customer demand fluctuations. While the environment remains fluid, we believe our predictable model allows us the flexibility to moderate our investments and leverage our operating expenses to seek to offset exposure to

revenue from these factors. We also remain committed to delivering the $6.00+ free cash flow per share discussed in February.

For Q2, we are targeting total revenue in a range of $1.01 billion to $1.02 billion, which would represent year-over-year growth of 9 percent at the midpoint. Within that, we expect applications & commerce revenue to grow between 14 and 16 percent and core platform revenue to grow between 5 and 7 percent. For Q2 and full year bookings, we expect growth to be approximately two points below revenue, primarily driven by FX pressure.

We will continue investing in Technology and Development to drive our robust product launch momentum while balancing our goal for margin expansion through efficiencies in customer care and marketing.

Normalized EBITDA for Q2 is expected to be in the range of $232 to $237 million, which would represent year-over-year growth of 18 percent at the midpoint.

Our capital allocation strategy also remains unchanged. During the second and third quarter, we intend to fulfill our $1 billion buy back target for 2022 through an additional $250 million of share repurchases.

Additionally, we will evaluate the impact of rising interest rates and explore refinancing our term loan and revolver with the intention of maintaining our leverage ratio of 2-4x.

Before I close, I want to reiterate that we remain laser focused on execution, and we have a track record of consistency in difficult times. We are marching towards delivering the 10 percent top line CAGR, 15 percent Normalized EBITDA CAGR and 20 percent or better free cash flow per share CAGR while buying back $3 billion of our stock over the next three years that we described in detail in our Investor Day. We are balancing our near-term and long-term goals, emphasizing delivering strong results, while at the same time investing in areas for future growth. GoDaddy leads in providing small business solutions, a position that we built by understanding the needs of our more than 21 million customers. While the current macro events present challenges, GoDaddy's resiliency comes from our long history of strong customer retention, the power of our existing cohorts, and the competitive advantages we built as the champion for small businesses.

## Forward-Looking Statements and non-GAAP Financial Measures

These prepared remarks include GAAP and non-GAAP financial results and operating metrics such as total bookings, unlevered free cash flow, normalized EBITDA, annualized recurring revenue, or ARR, gross merchandise volume, or GMV and net debt. A discussion of why we use non-GAAP financial measures and reconciliations of our non-GAAP financial measures to their GAAP equivalents may be found in the presentation posted to our Investor Relations site at investors.godaddy.net or on our Form 8-K filed with the SEC with today’s earnings release.

The matters we’ll be discussing today include forward-looking statements, which include those related to our future financial results, our strategies or objectives with respect to future operations including our approach to capital allocation, new product introductions and innovations, and our ability to integrate acquisitions and achieve desired synergies. These forward-looking statements are subject to risks and uncertainties that are discussed in detail in our documents filed with the SEC. Actual results may differ materially from those contained in the forward-looking statements. Any forward-looking statements that we make on this call are based on assumptions as of today, May 4, 2022, and except to the extent required by law, we undertake no obligation to update these statements as a result of new information or future events.