GoDaddy Inc. Q3 2022 Financial Results Prepared Remarks

Aman Bhutani, GoDaddy Chief Executive Officer

Intro

At GoDaddy, our mission is to make opportunity more inclusive for all -- championing micro and small business customers. One of our customers, Tyron Harper, co-owner of Harp Vision, was recently asked “What happens if Harp Vision doesn’t succeed?” His response was “I never thought about it. I only thought about it succeeding." Every day we are inspired by our customers. I know we make a difference in their lives and in uncertain times our mission becomes even more important.

None of us have a crystal ball to perfectly predict the future, but I can tell you that our customers are creative and resilient. In a recent survey, while more of our customers expressed a negative near-term outlook they generally remained a positive group with two-thirds of them reporting optimism about their business.

Today, we are pleased to announce our Q3 results with seven percent revenue growth, fifteen percent growth in normalized EBITDA and continued strong customer retention of more than 85 percent. These achievements are noteworthy given the continued negative foreign currency impact, uneven demand patterns and lower consumer confidence.

Our core competitive advantages of high global brand awareness to attract customers, sage guidance through Care to help retain customers, and seamlessly intuitive experiences to deliver mission-critical products and services to our customers uniquely position GoDaddy to weather economic challenges from a position of strength. While we are not immune to economic turbulence, we are committed to action and attention on what we can control. As in previous quarters, we will be prudent with our cost structure. Day to day, that comes down to focusing on success-based marketing, monitoring headcount and directing investments on the most important growth initiatives, including simplification and automation. This formula helps us deliver a great service efficiently.

Maintaining strong cohort retention, driving new customer adds, increasing ARPU and extending commerce and payments attach are all important to achieving our long-term goals. In Q3, we continued to drive strong retention that is in-line with our past cohort performance. This demonstrates that through the varying economic cycles over the past couple of years, we successfully attracted the customers that have the right intent--those customers that can grow and attach more with us over time thus benefiting GoDaddy’s ARPU. On gross adds, the data over the last few months suggests that there was a pull-forward during peak COVID times,

though the magnitude of this is hard to calculate until normal seasonality returns to the business. As a result, gross adds and domains under management are not expected to follow the same historical arc as in recent years. Countering this, we are encouraged by our ability to maintain strong retention, increase ARPU, and continue the growth and momentum we are driving in our commerce and payments business within our existing customer base.

Our strategic priorities remain consistent -- first, driving commerce through presence; second, delivering for GoDaddy Pros; and third, innovating in domains.

Driving Commerce through Presence

Beginning with presence, this quarter we added simplified site creation through improved guidance on template selection, making it easier for customers to start building an online presence. This update drove higher publish rates, which is an important indicator of customer success and increased lifetime value.

You have heard me regularly talk about bringing Commerce to every surface at GoDaddy. Keeping with that, we have enabled payments in all Websites + Marketing plans, including our free plan. This shows up in the form of 'Buy Buttons' making it easier for nascent businesses, side-hustles, and the like to get started with our Commerce offering. Our goal here is to build the Commerce relationship with our customers as early as possible and then expand this relationship over time. These customers want a simple, inexpensive way to start taking payments. This functionality allows for that, while providing the lowest-in-industry online transaction rate of 2.3% +30 cents.

Lastly, we recently celebrated the one-year anniversary of our OmniCommerce solution, and I wanted to spend a moment to acknowledge all that we have accomplished in this area since the release. We have been very ambitious in building out these capabilities because our customers tell us that they prefer a single "one-stop shop" solution. We believe our connected commerce solution is poised to win at a greater rate because it is adding value for our customers while saving them time and money. We made notable updates in user experience, eCommerce value and a disruptive payments experience.

We added in-store, point-of-sale and Online Store inventory sync with omni-channel reporting for merchants across all channels. Our customers can clearly see their sales across their physical store, their online store, third party marketplaces and social media platforms including Amazon, Etsy, Walmart.com and others. We've added Pay Buttons, integrated shipping labels, Apple Pay and a new Commerce Plus plan for Websites + Marketing, for up and running businesses that need sales tax automation. And our customers can use Mobile app QR Code Payments and Apple Pay for eCommerce.

We have also expanded our payments and commerce experience into Woo Commerce for Managed WordPress, while also actively rolling out our Managed Woo Commerce Stores solution allowing us to serve larger customers.

We started with larger customers doing up to a million dollars in sales, and we are finding that we can effectively serve high single digit million sellers as well, and we already have these customers in our base. It is still early days but we have made good progress in identifying, converting and activating these larger sellers. Attaching to our existing base is key to our long-term ambition with GoDaddy Commerce and GoDaddy Payments. We are learning a lot about the sales and implementation cycle to serve these customers and we will provide more updates over time.

We know that customers who engage in commerce and payments are generally stickier and have over 80x higher lifetime value. We have continued to see positive momentum in new customers attaching GoDaddy Payments within in Websites + Marketing and Managed WordPress. These serve as consistent proof points that our customers want this capability from us, and it can fuel our growth and customer retention for years to come.

Delivering for GoDaddy Pros

Moving on to GoDaddy Pros, this quarter we launched free SSL on nearly all new web hosting plans in our major markets including the US, UK, Canada, Australia and India. Early data shows that this is driving increased term lengths and modest improvements in new units and bookings in our hosting business.

While the macro and FX challenges on our hosting business are meaningful, we are focused on what we can control – making the product better for our customers. Along with free SSL, we have continued to improve server response time by rolling out infrastructure improvements across multiple hosting platforms. We have also continued to update GoDaddy's Pro Hub, putting a more competitive offering in the marketplace. Our hosting business in Europe is also exposed to rising energy costs and to mitigate that we secured a fixed power contract.

Innovating in Domains

Our third priority is innovation in Domains. The rollout of Payable Domains is going well with half of our domains now technically enabled as payable and ready for activation by customers. The first cohort of existing customers we exposed Payable Domains to were logged in domain plus email customers. These customers were identified as likely to have high intent and they have engaged with Payable Domains at an attractive rate. It is still too early to calculate how much usage Payable Domains will have for non-website customers, but we are encouraged by this beginning and moving as quickly as we can to merchandise it to more customers.

We also released a new Auctions user experience that improves the buying experience with new bulk bidding and Buy-It-Now options, improved uptime, and a simpler and consistent design. We also launched a Domain Portfolio Manager for all customers giving them modern domain management capabilities aimed at increasing their efficiency and ease of use. While we are learning more about how the macro environment impacts the Aftermarket, we continue to focus on what we control, which is to improve the experience for domain investor customers and integrate Dan.com’s capabilities into the broader GoDaddy secondary market.

Closing Remarks

In closing, we look forward to finishing the year steadfast in our commitment of executing against our strategic priorities and working to achieve our long-term financial goals.

As we think ahead to next year and beyond, we continue to be a leader in our space, with ample growth opportunities and the ability to participate in our customers' success. History has shown that companies that continue to innovate and invest appropriately during an economic downturn can exit the other side in an even better position. We will stay close to our customers, we will understand their greatest needs and we will delight them with guided Care, constantly innovating towards a seamless experience making our solutions stickier leading to greater customer lifetime value.

With that, here's Mark.

Mark McCaffrey, GoDaddy Chief Financial Officer

Thanks Aman and thank you everyone for joining us today.

In Q3, GoDaddy delivered solid results despite increasing currency and macroeconomic headwinds. **Revenue** was $1.03 billion, growing 7 percent on a reported basis and 9 percent on a constant currency basis. Within total revenue, international revenue grew 4 percent on a reported basis, and 9 percent on a constant currency basis.

Applications and Commerce revenue grew 13 percent, within the guided range of 13 to 15 percent on the strength of our Create + Grow and our Commerce products as well as email attach.

The ARR for Applications and Commerce grew 10 percent to more than $1.2 billion and within that, the ARR from our Create and Grow products grew 7 percent to nearly $430 million. Additionally, annualized GMV across the GoDaddy ecosystem grew 10 percent to approximately $29 billion.

Core Platform revenue grew 5 percent, within the target range of 4 to 6 percent, primarily due to growth in the Aftermarket and increased pricing in domains, offset by a modest decrease in our hosting business. As Aman noted above, the hosting business has concentration and exposure to uneven demand in Europe as well as FX pressure. ARR for Core Platform grew 2 percent to $2.3 billion.

Q3 **Bookings** totaled $1.09 billion, growing 5 percent on a reported basis and 7 percent on a constant currency basis. Applications and Commerce bookings grew 10 percent and Core Platform bookings grew 3 percent on similar growth factors noted for revenue.

Normalized EBITDA grew 15 percent to $263 million, a margin rate of 25 percent, representing a 180 basis point expansion, year-over-year. Continued discipline in spending allowed us to increase our margins at a rate higher than our bookings.

Unlevered Free Cash Flow for the quarter totaled $297 million, growing 18 percent driven by strong profitability.

Additionally, year-to-date we completed $1.15 billion of share buybacks, repurchasing 14.8 million shares, and reducing our fully diluted share count by approximately 9 percent since year end.

Free cash flow per share rose to $5.96 on a trailing twelve-month basis, versus prior year cash flow per share of $4.94, a 21 percent increase driven by strong cash flow and share repurchases.

Balance Sheet

On the balance sheet, we finished Q3 with $826 million in cash and total liquidity of $1.4 billion. Net debt stands at $3.1 billion, at the midpoint of our targeted leverage range of 2 to 4 times.

Additionally, in October, we announced a new term loan facility of $1.8 billion, the proceeds of which are to be used to pay down our existing term loans due in 2024. The pending term loan facility contemplates a maturity date of 2029 and pricing based on SOFR + three hundred and twenty-five basis points. We also announced our intent to increase the borrowing capacity under our existing $600 million revolving credit facility to a $1 billion facility maturing in 2027. These transactions, which are scheduled to close in Q4, are subject to customary closing conditions and would meaningfully increase our total liquidity. The cash interest payments under these transactions would increase our interest payments by roughly $35 million for 2023, resulting in expected annual interest of approximately $165 million.

Outlook

Moving on to our outlook, we are targeting Q4 total revenue in the range of $1.03 to $1.05 billion, representing growth of 2 percent year-over-year at the midpoint. As we previously discussed, the macro environment and FX has shifted since our initial guide in February. Additionally, we are facing a tough compare in our Aftermarket business. While our Aftermarket business showed strength in the fourth quarter last year, the demand for high value sales has been difficult to predict due to its short lead times and fast close rates. Our current guide does not factor in the same strength we experienced last year due to the current macro trends. Said simply, we do not expect Aftermarket demand in Q4 to enable the same revenue out performance we achieved in the year-ago quarter. Also, assuming a continuation of today's currency rates, we expect the adverse FX impact will be an incremental $5 million from our Q2 guide, for an incremental $40 million adverse impact from our initial February guide.

Flowing through these factors into our segments, we expect some impact to our Applications and Commerce segment from uneven demand experienced in September and October. As a result, we expect this segment to grow between 10 and 12 percent for Q4 putting Applications and Commerce revenue growth at the low to mid-end of our range of 13 to 15 percent for the year.

In Core Platform we expect revenue to be flat to slightly down year-over-year in Q4 on the impacts of Hosting and FX pressure mentioned previously as well as a tough compare in Aftermarket - which results in Core Platform revenue growth between 4 and 6 percent for the full year.

Normalized EBITDA for Q4 is expected to be in the range of $250 to $260 million and remain within the targeted range of 24 to 25 percent for both the quarter and the year end, above our initial range of 23 to 24 percent provided in February.

We expect our unlevered free cash flow for the year to be between $1.09 and $1.1 billion, putting our cash flow per share at $6.00+ in line with the outlook shared in February.

Our capital allocation strategy is unchanged. We continued our buyback program during Q3 and will continue to evaluate use-of-cash options for the remainder of the year, in line with our disciplined capital allocation framework.

Our attractive model and robust free cash flow provide us the flexibility to continue to invest in our business at a time when others may have to pull back more aggressively, and to return cash to shareholders through our buyback program.

At the same time, we remain disciplined on how and where we spend – with a focus on controlling our costs, optimizing our marketing spend, monitoring headcount and investing in tech so that we can strike the right balance between capturing attractive opportunities with delivering profits to our shareholders. Always with an eye towards balanced long-term growth and profitability.

On our cost structure, last quarter we shared that we are focused on acting in areas we could control. Committed to that goal, we executed a couple of important contracts to reduce or mitigate exposure to increased costs. In Q4, we expanded our relationship with Amazon Web Services to continue to migrate workloads and development to the cloud. This contract will reduce our overall costs in the form of long-term capital spend and energy expenses while giving us the agility to launch new products at a faster pace.

On energy costs, as Aman mentioned earlier, we secured a contract in Europe at a guaranteed rate for the next year, giving us mid-term stability on these costs impacting our European data centers.

Lastly, as noted earlier, we are currently refinancing our 2024 debt to extend our due date to 2029 and limit our exposure to further interest rate increases. Through this anticipated new debt, we continue to expect our leverage ratio to remain between 2 to 4 times.

We are committed to remaining transparent, and we will provide an update with our latest thoughts on key business trends when we share our 2023 guidance early next year. Like so many other companies, we are operating in a fluid environment and are not immune to its challenges.

Closing Remarks

In closing, while the short-term revenue outlook is dynamic, we have continued confidence in our ability to execute. We believe our competitive position and strategic advantages, our diverse product offerings, our strong balance sheet and the consistent and predictable cash flow we generate places GoDaddy as a leader amongst its peers. While the range of outcomes is somewhat wider today than at points in the past, we are creating a track record as a responsible management team that can and will lead in good times and in tougher times, allowing our business to perform across economic cycles. Our 21 million customers create the foundation for our resiliency. We will continue to focus on execution against our strategic priorities, tightly managing our business and building deeper customer relationships as we partner alongside entrepreneurs on their journey.

With that, I'll turn the call back over to Aman.

Aman Bhutani, Chief Executive Officer

Thanks Mark.

Taking a step back, we are incredibly proud of the work our teams are doing as we are making progress against our stated priorities. GoDaddy has a proven, focused strategy, executed by an experienced team that will act proactively and decisively through a fluid macro-economic environment to create long-term value for shareholders.

Despite these headwinds and the tough compare in Q4, the full year is on track to deliver 7 percent growth or 9 percent on a constant currency basis. Coupled with the momentum we are driving in commerce, we are excited about what’s to come in 2023 and beyond.

Forward-Looking Statements and non-GAAP Financial Measures

These prepared remarks include both 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. Growth rates presented represent year-over-year comparisons, unless otherwise noted. 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 in today's earnings release on our Form 8-K furnished with the SEC.

The matters in these remarks include forward-looking statements, which include those related to 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 forward-looking statements. Any forward-looking statements are based on assumptions as of today, November 3, 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.