GoDaddy Inc. Q4 and Full Year 2022 Financial Results Prepared Remarks

Aman Bhutani, GoDaddy CEO

GoDaddy's mission is to make opportunity more inclusive for all. We achieve this by providing sage guidance and robust tools so our customers can have a one-stop shop with GoDaddy. GoDaddy is delivering tools that help our customers get online and start their digital journey, tools that merge the in-store and online experience for their customers and bring commerce to every surface. This empowers them to focus on running their business.

Today, Mark and I will cover our 2022 financial results and key accomplishments in the context of our three-year plan laid out at Investor Day last February. We will also share more information on our progress, especially in Commerce and the continued opportunity there and managing our P&L in the face of an uncertain macro environment.

In 2022, GoDaddy delivered $4.1 billion in revenue, growing 8 percent on a constant currency basis, and over $1 billion of Normalized EBITDA driving a 25 percent margin. Free cash flow increased 13 percent leading to a 22 percent increase in free cash flow per share of $6.20-- higher than our 2022 targets.

Our strategy, direction and priorities continue to be consistent with our three-year plan as we work to empower new customers and our large base of existing customers with more of our product offerings, including enabling Commerce on every surface. I will go into a bit more detail in the Commerce priority section but just to touch on it now, in about 18 months, GoDaddy has added incredible new products to our lineup, including OmniCommerce offerings with Websites + Marketing and our newly launched SaaS solution, Managed WooCommerce Stores on WordPress, Payable Domains, Pay Links, Pay Buttons and much more. Our previously announced commerce offerings are now fully in market. And today, we are adding to that line up with an exciting new partnership with FIS Worldpay, to be their preferred provider of OmniCommerce solutions for U.S.-based small business customers and bank partners. The teams are already working together, and we are receiving positive feedback from customers.

We remain confident in the long-term growth potential we outlined last year in our three-year plan, but also recognize that these top-line growth targets may be challenged in the short term. As a result, we have taken some aggressive and disciplined actions in our cost structure that will result in over one hundred million in annualized cost savings, preserving our ability to achieve profitability targets even in a weak economic environment. These actions include deeper integration of some of our acquired brands, an overall reduction in vendor spend and an 8 percent reduction in our global workforce.

We will continue to make prudent and thoughtful investments in our top growth areas and priorities of driving commerce through presence, delivering for Web Pros and innovating in domains. As always, I will share a bit about our key priorities and, on this call focus more on Commerce this time.

Driving commerce through presence

On driving commerce through presence, at Investor Day we shared our vision of connected commerce, which is about bringing commerce to every surface. Our goal has been to launch products and capabilities to engage the commerce customer early in the lifecycle – which might be a Payable Domain or a Pay Button on a Websites + Marketing freemium website.

We have made tremendous progress in this direction through the broad release of payments into our website builders, domains, Pay Links, Pay Buttons, and more. In Q4, we furthered our reach by enabling GoDaddy Payments, by default, in all new commerce websites. In January, we rolled out our payments by default out to new domain purchases. Most of our new offerings have been in market in the U.S. for less than a year and we are just starting to engage our base, so I am happy to share that our customers transacted $760 million of Gross Payment Volume in 2022. GPV has been accelerating, and we are looking forward to sharing this metric with you regularly.

We have also launched our new OmniCommerce SaaS offering on WooCommerce and WordPress, called Managed WooCommerce Stores. This product is targeted at the larger end of our microbusiness customers, giving them the flexibility and ability to scale to their needs. Merchants can sell on a highly performant website, sell in-person using GoDaddy terminals, and via marketplace and social channels with shared payments and inventory. We are excited by the opportunity and potential this offering brings to customers who need a more robust solution.

We are also leveraging our Managed WooCommerce Stores offering in our new partnership with FIS Worldpay. FIS Worldpay is a market-leading merchant services provider, and we will be their preferred provider of OmniCommerce solutions for U.S.-based small business customers and bank partners. FIS Worldpay provides payment strategies and technologies to over 1,400 financial institutions, including more than 700 credit unions throughout the U.S., supporting over 33 million debit cards and processing more than 15.7 billion transactions each year. Bringing together FIS Worldpay's reach, and our commerce products will create a significant new offering in the marketplace.

Delivering for GoDaddy Pros

And briefly on supporting GoDaddy Pros, we have continued to improve our product offering and have started to integrate more deeply some of our acquired brands. While these projects are complex, they will lead to a much better customer experience and lower costs. For one of our key brands, Media Temple, we informed all customers in December 2022 and will be sunsetting the brand over the next 3 months.

And while I already mentioned our new OmniCommerce SaaS offering, we are actively testing price points that best appeal to our Web Pros customers and audience.

Innovating in Domains

Our third priority is innovating in domains and we continue to add value into our aftermarket platform. In Q4, our Dan.com integration reached a critical milestone six months ahead of schedule by launching Dan listings on our Afternic platform. All Dan users currently opted-in for the distribution network will now benefit from greater exposure as their inventory is automatically integrated into the Afternic domain listing service network. This milestone was accompanied by numerous other enhancements such as bid and offer history that further optimized the aftermarket experience.

Payable Domains is 100 percent enabled in the U.S. and will be ramping up the marketing launch in a couple of weeks. As you recall, Payable Domains are branded pay links that create a secure checkout page, shareable via a link, that enable U.S.-based domain name customers to begin accepting payments shortly after they purchase a newly registered domain, even if they do not yet have a website or online store. For any domain purchased, existing or new, customers can already access the respective Payable Domain through their GoDaddy Dashboard. Combining the ability to accept payments with the credibility of a domain name enables small businesses to get up and running easily and quickly. While this capability has been rolling over a few months, we're thrilled and ready to be fully in-market giving GoDaddy domain customers a truly differentiated domain with expanded payment capabilities.

Closing Remarks

In closing, we are pleased with the quarterly and annual financial results we delivered while operating in this difficult environment. More importantly, we are proud of our progress against the key initiatives that we outlined last year at our Investor Day.

We remain incredibly excited for the future. We are building on our unique market leading position with identified, abundant, long-term opportunity, bringing together our customers' digital identity, their presence and connecting commerce to every surface. Being this one-stop shop for our customers is at the center of our strategy. We are committed to continuing our pace of innovation, participating in our customers' success, intently focused on delivering strong financial results, and as always, growing shareholder value.

With that, here's Mark.

Mark McCaffrey, GoDaddy CFO

Thanks Aman. Hello everyone and thank you all for joining us.

Last year, we hosted a comprehensive Investor Day where we shared our financial goals for the coming three years around revenue growth, Normalized EBITDA, free cash flow per share and share buybacks. GoDaddy turned in a strong year against those financial goals, delivering revenue of $4.1 billion; Normalized EBITDA of $1 billion; free cash flow per share of $6.20 and executing $1.3 billion in share buybacks, meeting and exceeding our targets. While revenue growth has moderated in the short term, we remain confident in our ability to deliver the profitability and the cash flow we outlined at Investor Day and feel the strategic steps Aman described earlier will serve as tailwinds for accelerating our pace of growth going forward. We also remain committed to completing our share buybacks authorized by the Board last year.

Annual Results

Reviewing our annual financial results, **total revenue** was $4.1 billion in 2022, growing 7 percent. Excluding a point and a half of FX headwind, total revenue for the year would have grown over 8 percent on a constant currency basis.

Applications and commerce revenue for the year grew to $1.3 billion, representing 13 percent growth, and **Core platform revenue** for the year totaled $2.8 billion, representing 5 percent growth, both in line with the targets we set last year.

International revenue was $1.3 billion for the year, representing 5 percent growth. Excluding the FX impact, international growth would have been 8 percent on a constant currency basis.

Total bookings in 2022 was $4.4 billion, growing 4 percent, or 6 percent on a constant currency basis.

Full year **unlevered free cash flow** grew to $1.1 billion, representing 14 percent growth, in line with our guide issued last year.

Free cash flow grew 13 percent to $969 million. **Free cash flow per share** increased 22 percent to $6.20 per share, ahead of our investor day target of $6.00.

Lastly, full year Normalized EBITDA grew 16 percent topping $1 billion, resulting in a 25 percent margin for the year, which is an expansion of two points over the prior year.

Fourth Quarter Results

Moving on to our fourth quarter results, **total revenue** topped $1 billion, growing 2 percent, or 4 percent on a constant currency basis. **International revenue** grew 3 percent, or 8 percent on a constant currency basis.

Applications and commerce revenue grew 11 percent to $333 million, in line with the guided range of 10 to 12 percent for the quarter. Growth in Applications and Commerce was fueled by continued adoption of our Create and Grow products, email attach, and increasingly, the adoption of GoDaddy payments and the related hardware sales.

The **ARR for applications and commerce** grew 9 percent to $1.3 billion. Within that, the **ARR from our create and grow** products grew 8 percent to $445 million.

Additionally, annualized **GMV** across the GoDaddy ecosystem grew 10 percent to approximately $28 billion. Furthering our effort to provide more visibility into key growth areas of the business, we will share a new metric demonstrating our progress with GoDaddy Payments. **GPV** represents the dollar amount of payments processed on the GoDaddy payments platform. With Q4 as the first quarter with commerce fully launched on every surface in the U.S., GPV has already grown to an impressive $760 million.

Core platform revenue decreased 2 percent to $707 million in the fourth quarter, primarily due to the tough compare to the year-ago quarter when Aftermarket benefited from some larger than average transactions we have discussed previously as a well as a modest decrease in our hosting business. As previously mentioned, the hosting business has out-sized exposure to uneven demand in Europe as well as FX pressure. **ARR for core platform** grew 1 percent to $2.3 billion.

Q4 **bookings**, grew to $1.1 billion, flat year-over-year and growing 2 percent on a constant currency basis. Applications and Commerce bookings grew 7 percent on strength of Websites + Marketing, email attach and hardware and software sales. Core Platform bookings decreased 3 percent year-over-year on tough Aftermarket compares noted earlier — and due to softness in the broader hosting business.

Gross margin was down slightly for the quarter — primarily due to product mix. Payments revenue will put some pressure on gross margins as this revenue stream gets larger in future. However, there are relatively low incremental operating costs once those customers are acquired and set up on GoDaddy Payments, so we expect payments to be highly accretive to Normalized EBITDA as we scale.

Normalized EBITDA in Q4 grew 5 percent to $266 million, representing a 26 percent margin, and an expansion of 70 basis points in the quarter. Continued discipline in spending allowed us to increase our margins at a rate higher than our bookings. GoDaddy's high brand awareness and the effectiveness of our in-house bidding algorithm allowed us to drive efficiencies in marketing spend. We also continued to drive leverage in customer care.

Unlevered free cash flow grew 17 percent to $238 million, while **free cash flow** grew 16 percent to $202 million delivering $1.29 free cash flow per share in the quarter, a 25% increase over last year's Q4 free cash flow per share.

Balance Sheet

Turning to the balance sheet, we exited the year with $774 million in cash and total liquidity of $1.8 billion. Net debt landed at $3.1 billion, below three times net leverage on a trailing twelve-month basis, and near the midpoint of our targeted range of 2 to 4 times.

On our share repurchase efforts, we've returned $1.3 billion of cash to shareholders under the current authorization. From January 1st, 2022 through February 1st, 2023 we repurchased 17.2 million shares which has reduced our fully diluted share count by approximately 10 percent since the beginning of 2022, on target for the 15 to 20 percent net reduction for the three year period.

On customers, over recent years, the way we generate revenue has evolved through our expanded offerings to our customers, resellers and partners. We will continue to use metrics like ARR, GMV and GPV to show the health of our business and the progress towards our strategic goals as discussed at Investor Day.

As a result of the way our relationship with customers is evolving, we have updated the way we measure and report our total customers. In addition to paid subscriptions at the end of the period, we will now include accounts with paid transactions in the trailing twelve months and exclude accounts that have converted to free versions of our software. These changes do not meaningfully affect the historical customer growth or retention trends previously disclosed. We believe the updated definition more accurately reflects the dynamic customer lifecycle and provides more detail around the overall strength of our historical cohorts with a continued focus on long-term customers with a higher propensity to spend.

Under the new definition, in 2022 ARPU increased to $197 compared to $187 and $170 in 2021 and 2020, respectively. Retention rates remained consistent at 85 percent and customer count increased to 20.9 million in 2022 compared to 20.7 and 20.1 million in 2021 and 2020, respectively.

OUTLOOK

Moving on to our outlook for Q1 and for full year 2023, let us start by covering several notable events.

In January we signed a partnership agreement with FIS Worldpay to be a strategic re-seller of our OmniCommerce solutions for U.S.-based small business customers and bank partners. This arrangement is expected to drive growth in the second half of the year and will contribute to our commerce strategy through increased reach of our OmniCommerce offering and website attachment. We are excited about the launch of this partnership in 2023 and the momentum this gives our Application and Commerce segment going into 2024 and beyond.

On restructuring, we took certain actions necessary to align our structure with the current economic environment and position ourselves for future growth. This will result in annualized savings of approximately $100 million through a combination of a reduction in workforce, reduced spending, and integration of certain European brands and businesses within our Core Platform segment. This will also result in a modest headwind to core platform revenue of 100 basis points in 2023 as we sunset certain brands. We expect estimated restructuring and other related exit charges of $55 to $65 million with most of the charges to be recognized in the first half of 2023.

In Q1 2023, we are targeting total revenue of $1.03 to $1.05 billion, this represents 4 percent growth at the midpoint of the range and includes approximately 2 points of FX headwind from prior year bookings. Excluding this, the midpoint of our guidance would imply approximately 6 points of growth. We expect Normalized EBITDA margin during Q1 to be in the range of 24 to 25 percent.

For the full year, we expect total revenue to be within a range of $4.25 to $4.325 billion, representing growth of 5 percent at the midpoint of the range. This outlook is inclusive of approximately 2 points of headwind from FX from prior year bookings and the anticipated brand integrations mentioned above.

In the Application and Commerce segment, we are projecting revenue growth of 8 to 10 percent. In Core Platform, we are projecting revenue growth in the range of 2 to 4 percent. Normalized EBITDA during the year is expected to continue to grow, with a targeted margin of approximately 26 percent. As a reminder, as we scale our commerce offerings, gross margin will be pressured and is expected to be in the low to mid 60s range. As we gain operational efficiency in commerce, this is expected to drive incremental Normalized EBITDA margins.

As we have shared previously, we have multiple levers within our control to drive margins, while we continue to invest in the business. This allows us to strike a balance and continue growing revenue while achieving operating leverage down the income statement to drive sustainable shareholder value over the cycle. You have seen our recent record of accomplishment of delivering against our margin targets, and we are confident in executing on our profitability goals this year regardless of where we land within our revenue guidance range.

For the full year of 2023, we are targeting **free cash flow** of greater than $1 billion and **unlevered free cash flow** of greater than $1.2 billion. We remain on target to deliver free cash flow per share of more than $7.00 and are committed to returning capital to shareholders under the remaining buyback authorized by the Board in 2022. As stated in the past, our capital allocation strategy remains unchanged and will continue to evaluate our use-of-cash options on a quarterly basis.

We expect capital expenditures of approximately $50 million, income tax payments of approximately $30 million and cash interest payments of approximately $170 million.

Moving forward, we will share ARR, GMV, ARPU and customer count quarterly. We will share GPV and retention rate annually. Taken together, these metrics provide a more comprehensive view of GoDaddy’s expansive business over time and provide a view into revenue growth and profitability as we continue to expand customer lifetime value. These metrics may fluctuate based on acquisitions, integrations, divestitures and seasonality. That said, we are in an advantaged position given our ability to provide an ever-growing suite of solutions to a large, embedded customer base.

CLOSING REMARKS

In summary, we are proud of our strong and resilient business model where we are mission critical to our customers. We are confident in our ability to deliver the profitability and cash flow we outlined at Investor Day, and feel the strategic steps taken this quarter will serve as tailwinds for accelerating our pace of revenue growth going forward into 2024 and beyond. Our predictable model provides us the visibility to make prudent business decisions and allows us to remain resolute in operating the business to grow long-term value for our shareholders.

Forward-Looking Statements and non-GAAP Financial Measures

These prepared remarks include both GAAP and non-GAAP financial results and operating and business metrics such as Total Bookings, Unlevered free cash flow, Normalized EBITDA, Annualized Recurring Revenue, or ARR, Gross Merchandise Volume, or GMV, Gross Payments Volume, or GPV 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 investors.godaddy.net or in today's earnings release included in our Form 8-K filed with the SEC.

The matters in these remarks 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, February 14, 2023, and except to the extent required by law, we undertake no obligation to update these statements because of new information or future events.