



GoDaddy Inc. Q1 2023 Financial Results Prepared Remarks

Aman Bhutani, GoDaddy Chief Executive Officer

Good afternoon and thank you for joining us today. GoDaddy's mission is to empower entrepreneurs and make opportunity more inclusive for all. We learn from our customers every day and they are a resilient group, and they value what GoDaddy brings to them. While many worry about a recession, our Venture Forward surveys found that our customers are noticeably more optimistic today about the future of their business than they were 6 months ago.

One customer we showcased in the past is The Furlough Cheesecake founded by two sisters impacted by a government furlough. In a recent interview, one of them commented, "With partners like GoDaddy, we can manage our business from anywhere. GoDaddy helped us launch our business quickly, from "idea" to "up-and-running" in one week, because they had the tools in place."

GoDaddy's unique combination of seamless, intuitive technology and best-in-class human and digital guidance, creates the ease of use that our customers want, and need, so they can focus on their business. This combination continues to differentiate us in the marketplace, helping us drive profitable growth and superb cash flow. We serve 21 million customers that have a high retention rate of 85 percent. In Q1, we drove double-digit growth of 12 percent in our Applications and Commerce segment supported by 10 percent ARR growth in our Create + Grow products. Additionally, we surpassed one billion dollars in annualized GPV for GoDaddy Payments.

One area we continue to watch carefully is our Aftermarket business. We faced tough compares last quarter and continued unevenness in flow of large deals that we believe is impacted by broader macro headwinds.

Overall, we are pleased with our Q1 results and encouraged by the positive momentum over the quarter, especially in our subscription and commerce businesses.

Our strategic priorities remain consistent, and our teams continue to launch experiments and new experiences at a fast pace. As always, I will review each of our priorities.

Driving Commerce through Presence

For our first priority, Driving Commerce through Presence, we are happy to share that we gained exciting traction in our commerce offerings. We had our best quarter yet attracting sellers, more than we anticipated, and rapidly crossed over one billion dollars of annualized GPV. The largest opportunity for us remains our existing base of 21 million customers and the many sellers that are already a part of it. The efficient motion of selling into our existing customer base was the primary contributor to our GPV growth and hence it remains our focus as we work to scale this sales team. Adopting our commerce products paves the way for customers to deepen the relationship with us, which results in higher retention and increased lifetime value.

Last month we also launched Apple's contactless Tap-to-Pay technology within our GoDaddy app. As you know, Tap-to-Pay allows our customers to accept all types of contactless in-person payments with only an iPhone - just by tapping their credit card, mobile wallet or watch. We worked directly with Apple to integrate this technology natively, creating a seamless, best-in-class low-friction sign-up experience for our app customers.

We also made several other improvements to make Websites + Marketing a more robust solution for sellers including improved pay buttons, and new reports for merchants to help them prepare their taxes and understand their fees and payouts. Our teams are also excited about how generative AI can add ease of use for customers by auto-populating content for them, and helping them create natural language email, chat, and text messages to engage with their customers. AI-powered tools are showing up across multiple experiences at GoDaddy. For example, we built instant video features in our Studios app and use cases like auto-generating product descriptions are coming soon.

As always, we are focused on both technology tools and guidance for our customers. As our customers start exploring generative AI, we want to help them by launching a growing array of resources so our small business owners can begin harnessing its power to save time and grow their sales. For example, we now provide an Essential Small Business Guide and a Prompt Library. We are also working to bring these capabilities together in a manner that even the smallest businesses can benefit from instantaneously accessing vast amounts of data and transforming it into something meaningful for their business.

Websites + Marketing continues to be rated as the highest performing website builder according to Google Core Web Vitals and it is taking share in the marketplace. The team continues to focus on making it easy for customers to build a high-performance website quickly.

Delivering for GoDaddy Pros

On our second priority, Delivering for GoDaddy Pros, our goal is to make them better serve their clients and grow their businesses. GoDaddy Pros value platform capabilities like performance, availability and security but also automation, support, ease of use and value-added offers. Our new Managed Woo Commerce Stores offering replaced our old Managed WordPress commerce offering over the last few weeks. With this new product in place, we are bringing many more capabilities to the table and will be able to test into higher-priced SKUs.

On our hosting business, our focus is around stabilization and simplification. As discussed previously, we are on course to integrate brands more deeply which includes retiring the Media Temple brand with the final migration of customers to the GoDaddy full stack. In April, we also signed an agreement to exit a couple of our smaller European brands. Our goal remains to provide customers with a higher level of service at a lower cost to serve while sharpening our focus.

Innovation in Domains

On our third priority, Innovation in Domains, we have continued to broaden our bundling offers for new and existing customers. While our initial focus was around bundling email, we have increased experimentation velocity and are doing much more. We are improving the onboarding flow for customers with the target of higher attach and are encouraged by the results we have seen. This matters because we know that customers who activate and attach more products have higher retention rates.

And we continue to be excited about Payable Domains and have two clear insights since our launch. First, customers who adopt this product are demonstrating their satisfaction by quickly doing a significant number of transactions through the default Pay Link we provide. Our initial efforts to drive more traffic to this product resulted in impressive early GPV. Second, we noticed that existing customers are more ready to use this product compared to potential customers who are new to purchasing a domain. We are currently focused on creating more opportunities for both existing and new domain customers to discover and utilize Payable Domains. Although there is still work to be done, we strongly believe in the enormous potential of this offering.

On aftermarket, you will remember our 'List for Sale' feature that allows GoDaddy customers to list their domain in the aftermarket; this quarter we extended this capability to our registrar

partners opening a channel to bring more inventory to the aftermarket. We also added new features to the customer experience for brokered aftermarket transactions. We built a new lead center giving real-time status updates to the leads being pursued on behalf of domain sellers, so they can have more visibility into progress on their transactions. Our aftermarket business continues to innovate and create value for our customers and all players in the industry.

Wrap

At GoDaddy, we are eager to help small businesses thrive. This fuels us to create better products that deliver greater value for our customers, which drives our attractive financial model that then translates to sustained customer and shareholder value. That is the simple approach to how we work to grow GoDaddy and differentiate our offerings.

We are proud of the consistency of our strong execution and our strategy. We have a great business with a loyal and growing customer base that continues to spend more time with us. Through our strong competitive advantages and attractive financial profile, GoDaddy is well positioned to continue to grow and deliver for all stakeholders in meaningful ways.

With that, here's Mark.

Mark McCaffrey, GoDaddy Chief Financial Officer

Thanks Aman. Before getting into the detailed results, I wanted to summarize a few key points. First, we are making progress towards returning to double-digit growth while executing our three-year plan to expand our operating margins and deliver on our free cash flow per share targets. Second, we are delivering on our Applications and Commerce segment growth through increases in new customers and the conversion of our existing customers to our payments platform in the U.S. Lastly, we are on target to complete our restructuring action in the second quarter, driving better operating leverage in our core platform segment and improving our overall operating margin in the second half of the year.

With that, **Applications and Commerce** revenue grew to \$338 million, up 12 percent, exceeding our guide of 8 to 10 percent. Additionally, the Normalized EBITDA margin for Applications and Commerce was 39 percent. Taken together, this highlights the impressive performance we are driving in this business, which delivered ARR for Create+ Grow of \$450 million, up 10%, and over \$1 billion of GPV. This segment is our largest opportunity to drive growth through attachment of our Create + Grow products, commerce platform and productivity solutions for both new and existing customers.

ARR for Applications and Commerce grew 9 percent to more than \$1.3 billion. Annualized GMV across the GoDaddy ecosystem grew 18 percent to approximately \$28 billion.

Our **Core Platform** segment, which includes Domains, Hosting and Security, continues to serve as an important on-ramp to our overall business. Core Platform revenue was \$698 million, with an ARR of \$2.2 billion and a strong Normalized EBITDA margin of 27 percent. Core Platform revenue was supported by a 5 percent growth in domains from a combination of new customer adds, attach and price increases on renewals. This was offset by tough compares for our aftermarket business as well as the continued uneven flow of large transactions. Additionally, there are modest impacts to our hosting revenue and customer count from the migration of non-core hosting platforms being sunset.

Total revenue grew to \$1.04 billion, up 3 percent on a reported basis and 5 percent on a constant currency basis, reflecting a sequential lift from the Q4 growth rate. Within total revenue, international revenue grew 3 percent on a reported basis, and 7 percent on a constant currency basis.

Q1 **Bookings** grew faster than revenue at a rate of 4 percent on a reported basis, and 5 percent on a constant currency basis, totaling \$1.2 billion. Bookings growth on our subscription products outpaced the related revenue growth by approximately 100 basis points.

Our durable model continues to generate cash flow through our strong customer relationships and cohort performance, highlighted by our customer retention rate of 85 percent. We build on this strength through intentionally focusing our marketing on attracting high intent customers that stay with GoDaddy and spend more. This quarter we added 100 thousand net new high-quality customers, despite headwinds from our migration efforts noted above. Our ARPU grew 4 percent to \$197 from \$190 last year.

Normalized EBITDA grew 11 percent to \$250 million, with a margin of 24 percent, representing approximately 160 basis point expansion. We expect to continue to drive operating leverage through strong execution and our restructuring efforts.

Unlevered Free Cash Flow for the quarter totaled \$304 million, growing 6 percent driven by strong profitability while free cash flow remained flat at \$259 million despite an increase in our cash interest expense due to the refinancing of the term debt in Q4 2022.

Free cash flow per share rose to \$6.19 on a trailing twelve-month basis, versus the prior year's cash flow per share of \$5.25, an 18 percent increase driven by execution, operating leverage and share repurchases.

Additionally, in Q1, we completed \$114 million of share buybacks, repurchasing 1.6 million shares. This brings the cumulative shares repurchased under our \$3 billion authorization to \$1.4 billion and 18.4 million shares, reducing shares outstanding since inception by 11 percent. We remain on target for our commitment to reduce our fully diluted shares outstanding by 15-20 percent over the three-year period.

Balance Sheet

On the balance sheet, we finished Q1 with \$892 million in cash and total liquidity of \$1.9 billion. Net debt stands at \$3 billion, with 2.7 times net leverage, within our targeted range of 2 to 4 times.

Lastly, as noted above, we signed an agreement to divest certain non-core hosting assets which is expected to close by Q3. Our restructuring charge of \$50 million in the quarter included \$21 million of a non-cash impairment charge for these assets.

Outlook

Moving on to our outlook, we are targeting Q2 total revenue in the range of \$1.045 to \$1.065 billion, representing growth of 4 percent at the midpoint. With the current momentum, we expect to exit the year at approximately 7 percent top-line growth with a Normalized EBITDA of 28 percent. We expect Applications and Commerce segment growth to be between 8 and 10 percent for both Q2 and the full year.

For Core Platform, we expect revenue to grow 1 to 3 percent in Q2 and accelerate in the back half of the year to deliver between 2 and 4 percent for the full year.

Q2 Normalized EBITDA margin is expected to improve to approximately 25 percent with continued acceleration over the back half of the year to deliver full year Normalized EBITDA margin of approximately 26 percent showing improved operating leverage from the actions previously discussed.

I would like to spend a moment bridging our expected 2023 revenue growth to what we believe our strategy and model can produce going forward. Our current guide for the full year is 5 percent revenue growth at the midpoint. As a reminder, this year's revenue growth rate includes approximately two points of FX pressure from last year's bookings and is also impacted by difficult compares in our aftermarket business and the divestiture of certain non-core revenue generating assets. Looking ahead to next year and beyond, absent those negative impacts and with the momentum we are driving through the strategic initiatives Aman spoke about earlier, including ARPU expansion, even with a continuation of the current macro environment, there is a path to returning to double-digit top-line growth while remaining committed to delivering our margin expansion and free cash flow targets.

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

Closing Remarks

In closing, we have strong confidence in our ability to execute and accelerate our growth. 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 position GoDaddy as a leader amongst its peers. Our 21 million customers create the foundation for our resiliency. We remain focused on execution against our strategic priorities, responsibly managing our business and building deeper customer relationships as we partner alongside entrepreneurs on their journey.

Forward Looking Statements

These prepared remarks, reference both GAAP and non-GAAP financial results and other operating and business metrics. 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. Growth rates presented represent year-over-year comparisons, unless otherwise noted.

The matters in these prepared 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, May 4, 2023, and except to the extent required by law, we undertake no obligation to update these statements because of new information or future events.