GoDaddy Inc. Q2 2023 Financial Results Prepared Remarks

Aman Bhutani, GoDaddy Chief Executive Officer

Good afternoon, and thank you for joining us today. At GoDaddy our mission is to empower everyday entrepreneurs and make opportunity more inclusive for all. In Q2 we continued to make good progress on our mission providing a breadth of solutions to a growing number of customers globally. The fundamental health of our business remains strong with new high-quality customers, robust retention rates and improved attach. We continue to be on track for stronger growth and profitability in our business, exiting the year at approximately 7 percent revenue growth and 28 percent Normalized EBITDA margin. For Q2, in our highly competitive Applications and Commerce segment, our revenue of $352 million outperformed our guide with 11 percent growth. We remain the leader in domains with 3 percent growth in primary registrations, as domains under management grew in the quarter, offset by underperformance in the domain aftermarket. Hosting continues to stabilize from product improvements and the previously announced integration and divestitures of non-core hosting assets. Gross adds remained strong on efficient marketing while maintaining our customer retention for GoDaddy brand at 85 percent. Customers are now bundling new solutions at a faster rate than we have ever seen before. Innovation resulting in higher monetization through attach and pricing with strong retention underpins our confidence in the positive trajectory of our business and our ability to drive shareholder value for years to come.

At GoDaddy, we are focused on creating value for customers through innovation, strengthening product market fit and driving towards a one-stop shop. We moved quickly to understand and take advantage of the step function changes generative AI offers to our industry. In just a few months, we have already launched multiple new generative AI-based features that our customers are actively using to reduce their workload, and there is more to come.
As you know, our care organization has guided customers to success for over 25 years, and now for the first time, we can bundle each GoDaddy Domain purchase with an AI powered GoDaddy Digital Guide.

The Digital Guide will automatically build a free personalized basic website, including a checkout path to take payments. It proposes brand colors, creates a free logo and embeds it in the basic website. It also creates marketing messages with our customer’s logo and posts to social media to generate traffic to their sites.

The Digital Guide, built on years of our experience, knows the journey of our customers from identity to presence to commerce and can automatically present solutions in a unique way so they can experience a new product in context. For example, the Digital Guide can configure email or a new phone number and bring messages from SMS and social sites to our conversations app giving our customers one simple inbox that aggregates their customers’ messages. And at the same time, the Digital Guide writes proposed responses practically removing the effort and time taken to respond to inbound messages.

Bundling this with the domain purchase is different from anything else available across the industry and GoDaddy is in a unique position to pursue this disruptive approach at scale. These new capabilities can improve loyalty and retention and bring differentiated offerings to our existing base of 21 million customers driving an increase in lifetime value.

We are excited about bringing these new features to our customers and our teams have been energized to build new experiences powered by generative AI. In November at our investor dinner in Tempe we look forward to showing you demos of these new capabilities.

As always, I also wanted to briefly touch on our three priorities – driving commerce through presence, delivering for Pros and innovating in domains.

Driving Commerce through Presence

On commerce, we continue to drive strong growth in our OmniCommerce solution. Customers in our base continue to convert to GoDaddy Payments at an impressive rate, and attaching to our base was again the strongest component of our year-over-year GPV growth, which is on pace to more than double our last year's exit rate. We'll add to this momentum through our anticipated Q3 launch of GoDaddy Payments in Canada as we deploy our successful US playbook.

Websites + Marketing continues to perform well and we are driving greater engagement with customers with new product launches. We know that higher engagement is correlated with higher retention rates and we expect engagement to be a driver of Website and Commerce performance metrics.

Delivering for GoDaddy Pros

On delivering for Pros, improvements in our Managed WordPress solution have reached an important milestone driving improvement in retention rates as customers begin to recognize an enhanced solution. We now offer one of the industry's fastest, most secure and easiest Managed WordPress platforms. In a recent third-party performance benchmarking study, sites hosted on GoDaddy's WordPress loaded an impressive 2x faster, which results in improved search engine rankings for our customers.

And domain customers are not the only ones with a Digital Guide; we have launched similar capability in the Pro Hub and are measuring the time saved for pros including generating site content and client communications.

Innovation in Domains

On innovation in domains, while bundling the GoDaddy Digital Guide and its enhanced offerings is the most exciting change we are bringing to domains, I wanted to quickly share an update on Payable Domains as well. Payable Domains made a meaningful contribution to GPV growth this quarter with healthy double-digit month-over-month growth. This is a unique product that only GoDaddy offers and with GoDaddy's Digital Guide we expect to continue to make it simpler for customers to understand and adopt it.

Wrap

In closing, we feel good about our continued progress this quarter and how our organization is positioned to take us into the next phase of our growth with strong applications and commerce momentum. We have also continued to be efficient with our marketing spend especially with the improvements we have made in Search Engine Marketing and we are eager to duplicate those results in other channels. We expect growth to accelerate as we exit the year and remain committed to our growth algorithm with increasing margins and expanding free cash flow per share and we remain eager to continue to deliver value for all GoDaddy's stakeholders.

With that, here's Mark.

Mark McCaffrey, GoDaddy Chief Financial Officer

Thanks Aman. In just the last few years, GoDaddy successfully built a growing, competitive, and robust set of tools and services including our Websites + Marketing product and Omni Commerce solution, in a one-stop shop, empowering entrepreneurs to build and manage their ventures and accept payments with a dedicated partner by their side. The product innovation and targeted investment over this period has led to a better suite of products. And, with our soon to be launched GoDaddy Digital Guide, we will provide an even further differentiated experience for our customers, propelling long-term growth for GoDaddy through faster product attachment and stronger retention.

As we consider the many headwinds we faced in the first half of the year, we are thrilled with the continued momentum of our Applications and Commerce revenue and the acceleration in our Create + Grow solutions. Our durable model continues to generate free cash flow and we expect to re-accelerate our growth and improve our profitability as we exit the year, while delivering on our cash flow targets.

Moving to our financial results, our Applications and Commerce revenue grew to $352 million, up 11 percent, surpassing our guide of 8 to 10 percent, and delivering a segment EBITDA margin of 41 percent. The strength in our Applications and Commerce segment is fueled by our Create + Grow solutions, which accelerated to $465 million in ARR, up 11 percent. Additionally, we drove rapid growth in GPV, comparable to last quarter, and we are on pace to more than double the 2022 exit rate by the end of the year as we continue to attract and convert customers within our 21 million base to GoDaddy Payments.

ARR for Applications and Commerce grew 10 percent to more than $1.3 billion with a 20 percent growth in annualized GMV to over $33 billion.

Core Platform revenue totaled $696 million, flat year-over year with a segment EBITDA margin of 27 percent. ARR for our Core Platform segment was $2.3 billion.

Core Platform revenue was supported by 3 percent growth in Domains on stronger customer additions from higher demand and price increases. This was primarily offset by greater than expected declines in our Aftermarket.

On Aftermarket, revenue decreased 5 percent to $101 million on a tough compare from last year. Over the last five years we built upwards of a $400 million revenue, two-sided marketplace. As a reminder, this business allows a buyer and seller to transact on our platform at their agreed upon valuation. This business rapidly grew as we scaled the operations, participants, and partnerships. What we see now is a post-covid normalization of this business as valuations on larger transactions have decreased and volume growth has slowed. With that we expect steady low to mid-single digit top-line growth for the business on a go-forward basis.

On our Core Platform restructuring initiative, we completed the migration of Media Temple and Main Street Hub customers to the GoDaddy technology stack, and the 123 Reg migration is planned to be completed by the end of the year. As expected, these migrations produced a slightly elevated churn on these brands this quarter but will deliver further cost efficiencies in the future. The retention rate of customers for the GoDaddy branded products remains above 85 percent.

Total revenue grew to $1.05 billion, up 3 percent on a reported basis and 4 percent excluding Aftermarket. Constant currency revenue increased 4 percent. Within total revenue, international revenue grew 3 percent on a reported basis, and 6 percent on a constant currency basis. Our ARPU grew 3 percent to $199 from $193 last year and we added 100 thousand net new high-quality customers, despite the headwinds from our migration efforts.

Normalized EBITDA grew 2 percent to $265 million, while delivering a margin of 25 percent.

Bookings totaled $1.1 billion, growing 2 percent on a reported basis and 4 percent excluding Aftermarket and the impact from the integration of non-core assets. Bookings grew 3 percent on a constant currency basis. Excluding the impact of Aftermarket, the drivers of growth in bookings were strong customer additions and price increases in Domains as well as strong attach in Applications and Commerce. We expect these factors to contribute to accelerated revenue growth next year.

Unlevered Free Cash Flow for the quarter totaled $284 million, growing 3 percent, while free cash flow was relatively flat at $240 million despite increased interest-related payments.

Free cash flow per share rose to $6.44 on a trailing twelve-month basis, versus the prior year's cash flow per share of $5.67, a 14 percent increase driven by execution, operating leverage and share repurchases.

Through July 31, we repurchased 10.2 million shares year-to-date totaling $746 million, of which $632 million was repurchased since the end of Q1. This brings the cumulative shares repurchased under our current authorization to $2 billion and 27.1 million shares, reducing shares outstanding since the inception of this authorization by 16 percent. We remain on target for our commitment to reduce our fully diluted shares outstanding by 15-20 percent over the three-year period. Additionally, today we announced an incremental $1 billion share buyback authorization to bring the total authorization to $4 billion and extending the program out to 2025.

Balance Sheet

On the balance sheet, we finished Q2 with $583 million in cash and total liquidity of $1.6 billion. Net debt stands at $3.3 billion, with a 2.9 times net leverage, within our targeted range of 2 to 4 times.

Lastly, we secured a 75-basis point interest rate reduction on $1.8 billion of outstanding principal through a refinance issued at par. This refinance is expected to save $13 million annually in interest payments for each of the next seven years.

Outlook

Moving on to our outlook, we are targeting Q3 total revenue in the range of $1.055 billion to $1.075 billion, representing growth of 3 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. An increase of 300 basis points from our 2021 exit rate of 25 percent. We are increasing our growth expectations for Applications and Commerce to be between 9 and 11 percent for Q3 and the full year. In our Core Platform segment, we expect revenue to be flat in Q3 and reaccelerate in the fourth quarter to deliver 1 percent growth for the full year.

Q3 Normalized EBITDA margin is expected to improve to approximately 26 percent with continued acceleration over the fourth quarter, resulting in a full year Normalized EBITDA margin of approximately 26 percent. This is a 300 basis point increase from our 2021 rate of 23 percent on better operating leverage from improved marketing performance, restructuring efforts, benefits from our continued move of workloads to the cloud and the incorporation of AI into our operating model.

On the growth bridge we spoke about last quarter, we remain confident in the path to accelerated revenue growth while expanding margins and improving cash flows. As a reminder, this year’s revenue growth rate includes approximately two points of FX pressure from last year’s bookings, difficult compares in our Aftermarket business, and the migration and divestiture of certain non-core assets. We expect momentum in bookings in the second half of the year to drive the reacceleration of revenue growth as we exit the year while we remain committed to delivering our margin expansion and free cash flow targets.

We will be hosting our annual investor dinner with product demonstrations in November and are planning an investor day in Q1 2024. We consider both a great opportunity to share more about our exciting initiatives in AI and our outlook for the next three years.

Closing Remarks

In closing, we remain confident in our ability to execute in the areas of our business within our control and deliver the full year targets. As always, we remain focused on executing against our strategic priorities, committed to being responsible stewards of capital, and strive every day to provide a one-stop shop to microbusinesses along their entrepreneurial journey with an eye towards balanced long-term growth and profitability.

Forward Looking Statements

These prepared remarks, reference both GAAP and non-GAAP financial measures 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, such as those related to future financial results and our strategies or objectives with respect to future operations. These forward-looking statements are subject to risks and uncertainties that are discussed in detail in our periodic SEC filings. Actual results may differ materially from those contained in forward-looking statements. Any forward-looking statements that we make on this call are based on assumptions as of today, August 3, 2023, and except to the extent required by law, we undertake no obligation to update these statements because of new information or future events.