



GoDaddy Inc. Q3 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. Our strategy centers on driving profitable growth, resulting in compounding free cash flow per share and long-term shareholder value. In recent years, we have proven our commitment through decisive actions and margin expansion, even in slower growth conditions.

Q3 was an important quarter for us. I am pleased with the results and the continued trajectory into Q4 and 2024. Third quarter Normalized EBITDA margins jumped 250 basis points sequentially, primarily driven by a reduction in tech and dev spend, some of which was expected, and some realized a quarter early.

While margin improvement is increasingly evident in our financial performance, this stems from our earlier restructuring, brand integrations, and diligent efforts for over a year to drive cloud adoption which unlocked additional savings. As shared earlier this year, we are executing these changes in a deliberate and strategic manner, with a commitment to ongoing cost structure management. The work we have done, and our ongoing initiatives, position us for sustained margin expansion in future quarters and years to come.

Q4 will also benefit from margin improvement primarily from a reduction in Tech and Dev spend. Additionally, we are eager to see our high-margin segment, Applications and Commerce, grow faster since, in time, that becomes an additional tailwind to our overall margin. Applications and Commerce Bookings grew 12 percent in Q3, and we are encouraged by that momentum. October has continued that trajectory with mid-teens bookings growth in Applications and Commerce.

One of the key messages that I hope you take away from our results, and my comments today, is that the third quarter marked the turning point of our tech and dev spend as a few significant platform improvements and brand integrations start to be in the rear-view mirror and our product investments get past their peak. As a result of these dynamics, we are well positioned to exit 2024 with Normalized EBITDA margin of approximately 31%, another significant step forward for our business.

As we look at the next few years, we see leverage opportunities across the P&L. In Care, leverage will be driven by consumer behavior, enhanced automation, and the incorporation of Generative AI. Within Tech and Dev, as already mentioned,

we are actively pursuing opportunities for leverage with multiple initiatives. Furthermore, we remain committed to our disciplined approach in Marketing and G&A. These strategies collectively chart a course for our continued margin expansion through 2025 and 2026, and we look forward to providing additional insights at our Investor Day early next year.

As always, I want to take a few minutes and talk about our highest priority initiatives. We have added Productivity explicitly to our priorities and changed the order. This was driven by the fast adoption of Generative AI and new capabilities in bundling with domains and productivity opening up new exciting opportunities.

Innovation in Domains and Productivity

Elevating to our first priority, we have evolved Innovation in Domains to Innovation in Domains and Productivity. We have enhanced the bundling capabilities for our Productivity solutions which is already contributing to the faster growth in our Applications and Commerce segment.

And we are taking it further. As you know, the integration of machine learning and use of AI is not new to GoDaddy. We have harnessed these technologies for several years, primarily in our Care and Marketing functions. Building upon this foundational expertise, we quickly became a leader in the GenAI space for our industry, with customer-facing capabilities in market since April.

I am excited to showcase the first iteration of GoDaddy's Digital Guide, now named GoDaddy Airo, to you at our investor dinner later this month. As I had shared last quarter, this innovative experience empowers customers to access the full suite of GoDaddy products and additional partner products seamlessly – just by acquiring a domain. In this experience, domain purchasers receive an automatically generated basic website site using Generative AI, an automatically generated logo, ready-to-use social posts, a personalized email address, and more -- all delivered in an automated low-friction manner.

All of this is in service to making a significant improvement in the number of customers that have more than 2 products with us. As you are aware, customers with 2 plus products retain at much higher rates and have much higher lifetime value, all the way to 80x for customers enabled with Commerce.

Driving Commerce through Presence

On driving commerce through presence, over the years we have added elegant, functional, performant, and fully featured capabilities at a fast pace to address the needs of our customers in a rapidly evolving and competitive environment. As a result, Google Core Web Vitals recognizes GoDaddy's Website Builder built sites as the highest performing websites.

This quarter, we have taken strides towards our vision in empowering our customers with even broader capabilities to help them grow their businesses with confidence. Our Conversations feature has elevated the way our customers connect with their own customers, making it simpler and more effective than ever before. We are proud to announce that we are the first to integrate Google's Business Messages in the U.S. Furthermore, we've seamlessly integrated M365 Email and Social direct messages, mentions, and comments into our Conversations platform, creating a unified, all-in-one solution that is second to none. With these advancements, GoDaddy's Websites + Marketing can continue to serve larger and larger customers that have more complex needs.

We also continued to drive strong growth in our OmniCommerce solution. Our partnership with WorldPay has launched and these customers are already transacting using our hardware and software. 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 remains on pace to more than double our last year's exit rate.

Delivering for GoDaddy Pros

On delivering for Pros, we mentioned last quarter that 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 to use 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.

Now, one quarter later, we are proud to share that these efforts drove impressive double-digit growth in Managed WordPress bookings which is included in our Applications and Commerce segment. Additionally, these features are now enhanced with Generative AI features to help deliver simplified experiences that expand on the enhancements we have made around performance and security, giving GoDaddy a clear value-based advantage. In just minutes, our customers can now create beautiful, secure, and high-performing WordPress sites.

Closing

In closing, we are committed to driving a strong combination of revenue growth plus profitability. As Mark will detail, based on the margin expansion efforts in 2022 and 2023 and our confidence in our ability for continued margin expansion in 2024, we see the path to further enhance profitability in 2025 and 2026 -- above the 31 percent normalized EBITDA margins that we have laid out today.

Our hallways radiate with the energy of tenured and new talent, and we have retrofitted many platforms and products at the company with new and exciting technologies. I am confident that our work has materially improved the

fundamentals of the company and the entire management team is determined to drive shareholder value.

With that, here's Mark.

Mark McCaffrey, GoDaddy Chief Financial Officer

Thanks Aman. The product enhancements over the last few years have put GoDaddy at the forefront of one of our most exciting eras yet, and we are poised to deliver a complete integrated software solution to our customers spanning every facet of their needs. We have seen the positive traction from these efforts in terms of faster product attach, stable retention rates as well as the strong, sustained double-digit growth of our Applications and Commerce revenue which has also contributed to us expanding our Normalized EBITDA margin ahead of schedule.

Moving to our financial results for the quarter, Applications and Commerce grew 11 percent to \$363 million, delivering at the high end of our guided range. Additionally, we delivered an expanded segment EBITDA margin of 42 percent from 41 percent last quarter. The related ARR for Applications and Commerce grew 11 percent to more than \$1.4 billion. Create + Grow ARR grew 9 percent to \$478 million, as bookings trended ahead of revenue growth. Like last quarter, GPV continues to grow at an impressive rate as customers within our 21 million base convert to GoDaddy Payments.

Core Platform revenue totaled \$706 million, flat year-over-year and in line with our guide. The segment's EBITDA margin accelerated to 30 percent from 27 percent last quarter. ARR for our Core Platform segment was \$2.3 billion, flat year-over-year.

Core Platform revenue was supported by 4 percent growth in Domains on stronger customer additions from higher demand and price increases. Additionally, Domains bookings growth accelerated to 8 percent showing a strong recovery for future revenue growth. This was partially offset by Aftermarket, down slightly 2 percent to \$107 million as it begins to reverse prior quarter trends, and the 150 basis points of headwind from migration and divestiture of certain assets previously mentioned.

Total revenue grew to \$1.07 billion, up 4 percent on a reported and constant currency basis and above the midpoint of our guide. Within total revenue, international revenue grew to \$346 million, up 4 percent on a reported basis, and 5 percent on a constant currency basis. ARPU grew 2 percent to \$200 on a trailing twelve-month basis and we added 100 thousand net new high-quality customers, despite the headwinds from our migration efforts. We are happy to share that the number of customers with two or more products now sits above 50% and retention rates for the GoDaddy products remained at approximately 85%.

Bookings totaled \$1.1 billion, growing 5 percent on a reported basis and 4 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 and Normalized EBITDA growth next year. Normalized EBITDA grew 13 percent to \$296 million, while delivering an expanded margin of 28 percent. These margin gains were driven in part by the two points of leverage achieved this quarter from a reduction in normalized Tech & Dev spend, decreasing 140 basis points sequentially, as a percent of revenue.

With that, we want to shed some further light on the components of Tech & Dev to give you an appreciation of the nature of the spend categories. There are two distinct categories of spending, one that drives product innovation and the other that supports our operations. First, we invest in driving innovation that enables our customers' success by providing competitive tools and interactions to enhance customer lifetime value through improved attach, retention, and pricing.

In the second category, we invest in our infrastructure to support our operations by maintaining, unifying, and securing our technology platform delivering a seamless experience for our 21 million customers. In addition, these investments facilitate a better cash profile by reducing data center related capital expenditures, which improves our overall free cash flow and free cash flow per share. We also benefit from the technologies we built in-house that are driving efficiencies in Care and Marketing spending.

As a percentage of revenue, product innovation represents 7 to 8 percent and infrastructure, to run a secure company of our size, represents 8 to 9 percent. Overall, during the third quarter, we reduced our Tech & Dev and capital spending by 5 percent from our restructuring efforts, the migration of non-core hosting assets, and reduced data center capital expenditures.

And to be clear, we know there is room to do more. We believe the strength of our product portfolio today has brought us to an inflection point, and we expect reduced Tech & Dev spending to meaningfully contribute to our EBITDA margin trajectory going forward, without sacrificing GoDaddy's ability to innovate and compete.

Moving on to our cash generation, Unlevered Free Cash Flow for the quarter grew 8 percent to \$320 million and free cash flow grew 6 percent to \$280 million despite increased interest expense and the timing of working capital spend, which is expected to flip in Q4 of this year. Although our net debt has remained the same at \$3.6 billion, our net cash interest expense for the quarter increased by 28% to \$40 million primarily from the refinance of our Term B loan. We finished Q3 with \$329 million in cash, total liquidity of \$1.3 billion and we remain at the midpoint of our targeted leverage range of 2 to 4 times.

Free cash flow per share rose to \$6.82 on a trailing twelve-month basis, versus the prior year's cash flow per share of \$5.96, a 14 percent increase driven by improved operating leverage and share repurchases.

Through October 31, we repurchased 17.3 million shares, year-to-date, totaling \$1.3 billion, of which \$118 million was repurchased since the end of Q3. This brings the cumulative shares repurchased under our current authorizations to \$2.6 billion and 34.2 million shares, achieving 20 percent reduced fully diluted shares outstanding since the inception of these authorizations.

Outlook

Moving on to our outlook, we are targeting Q4 total revenue in the range of \$1.095 to \$1.115 billion, representing growth of 6 percent at the midpoint of our range. We expect our high-margin Applications & Commerce segment to deliver approximately 13 percent growth for Q4. In our Core Platform segment, we expect revenue to deliver in the range of 2 to 3 percent growth in the fourth quarter. Bookings growth is expected to outperform revenue growth by approximately 200 basis points in Q4.

As Aman mentioned, all of us on the GoDaddy team have the same determination and resolve around the opportunities we see ahead, and we are poised to drive additional normalized EBITDA margin leverage through the end of this year and beyond. As a result, we are *increasing* our targets for Q4 Normalized EBITDA margin to approximately 29 percent. Additionally, the full-year Normalized EBITDA margin is expected to improve, delivering slightly above the 26 percent previously noted. As a reminder, from 2022 we delivered approximately three points of normalized EBITDA margin expansion. As evidenced by the incremental restructuring charge recognized this quarter, we remain committed to seeking out additional opportunities to drive efficiency throughout our operating model to achieve higher margins.

We also remain on track to deliver our unlevered free cash flow, free cash flow, and free cash flow per share targets of \$1.2 billion plus, \$1.0 billion plus, and \$7.25 plus, respectively.

In addition to our typical fourth quarter guidance, given the degree of focus on our ability to deliver margin expansion as we re-accelerate growth, we think it is important to update investors on our margin expectations for 2024.

In 2024, we expect our Tech & Dev expenses to fall in absolute dollars and as a percentage of revenue year-over-year. We also expect to continue to drive improvements throughout the next year, resulting in a Normalized EBITDA margin in Q4 2024 of approximately 31 percent.

Based on our confidence in GoDaddy's ability to accelerate the pace of margin expansion in 2024, we also plan to enhance profitability further in 2025 and 2026 as we continue the path above 31 percent normalized EBITDA margins that we

have laid out today. We will provide more detail about our expectations for this during our Investor Day in the first quarter of next year.

As always, we remain focused on executing on what is within our control. So, while we continue to be excited about our product portfolio, our ability to drive durable revenue growth and our levers to drive margin expansion, we realize that we are still in a dynamic macro environment, and we want to be responsive to the feedback from investors. I want to be clear that as we have been doing for the last several years, we are committed to actively managing the business with the goal of delivering a strong combination of revenue growth plus profitability. We take a dynamic approach to managing the business and will be proactive in driving margin expansion over time and compounding free cash flow per share.

Please note that we plan to provide complete 2024 financial guidance when we report our fourth quarter results, in keeping with our normal practice.

Closing Remarks

We believe enhancing profitability and durable top line growth will drive even stronger free cash flow generation. We will continue to deploy cash in line with our capital allocation framework, creating significant value for our shareholders. We are excited about our path ahead, and we are acting with urgency to drive results every day.

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 are based on assumptions as of today, November 2, 2023, and except to the extent required by law, we undertake no obligation to update these statements because of new information or future events.