GoDaddy Inc. Q4 2023 Financial Results Prepared Remarks

Aman Bhutani, GoDaddy Chief Executive Officer

Good afternoon and thank you all for joining us today. At GoDaddy, our mission is to empower everyday entrepreneurs and make opportunity more inclusive for all. Our strategy centers on creating customer value, driving profitable growth resulting in compounding free cash flow per share and long-term shareholder value. Our focus remains on margin expansion and growth in our Applications and Commerce segment.

2023 was a pivotal year for us and I am pleased with our financial and operational results. Innovation accelerated as we brought together our technology capabilities into a unified stack which enabled us to launch our compelling Airo experience. We drove 2023 Normalized EBITDA margin ahead of our guidance as we balanced investment in growth and cost structure management. Full year Normalized EBITDA margin increased approximately 200 basis points, resulting in 12 percent increase in free cash flow and 21 percent increase in free cash flow per share.

In Q4, we drove 16% Bookings growth for our high-margin segment, Applications and Commerce and this momentum continued into January. Our focus on the combination of our focus on optimizing costs and driving growth in Applications and Commerce, has positioned our business well to exit 2024 with a normalized EBITDA margin of approximately 31%.

At the investor dinner in November, we showcased how Airo delivers a seamless experience for Identity and Presence and our teams have already launched more since then. At our upcoming Investor Day, we will showcase these new capabilities as well as provide a sneak peek into what is coming soon. Airo enablement of Commerce features will also be showcased, which now expands the Airo experience across the Entrepreneur's Wheel, fully unlocking the full power of GoDaddy's software platform for our customers in a seamless and intuitive manner.

Over the last few quarters, we covered our continued efforts to optimize our marketing spend and G&A expenses. We have had similar efforts in Technology and Development and Care as well. In Technology and Development, the simplification and unification of our technology stack led to a material reduction in our server footprint and multiple areas of costs associated with it. We also expanded our access to talent globally and, together, these items benefited both our capital and operating expenses. In Care, we are harvesting the benefits of our investments in technology and global scale as customer preferences shifted towards asynchronous chat, and with continued room for leverage through the automation of tasks and the rollout of GoDaddy Airo for our Care guides.

Additionally, the power of data from our GoDaddy software platform bolsters our ability to drive faster decision-making and is expected to benefit both our margin and revenue opportunities. We are excited to share more about continued leverage opportunities driven by innovation in technology and Care at our Investor Day in Tempe.

As always, I would like to cover our high priority initiatives, but I will keep my comments here brief since we plan to share an expanded set of demos in March.

To start, bundling has been a key focus for us as a part of our innovation in domains and productivity to drive attach. This initiative primarily benefits our high-margin Applications and Commerce segment, and we expect our Airo experience to drive this higher over time. Airo has also created new engagement surfaces allowing us to deliver automated customer experiences that we will continue to improve over time.

On GoDaddy Airo, I have an update on its performance since launch. I am happy to share that in a controlled experiment, customers that were part of the first test cohort for the Airo experience monetized at rates higher than those customers in the control group that were not exposed to the Airo experience. The increased monetization was due to attach and shifting the mix towards higher price and higher margin products. This is particularly encouraging because significant customer experience changes like Airo typically take a many months of iterative improvement to outperform the control group.

With this initial promising result, we have rolled out GoDaddy Airo to more customers in the US. We have also launched tests in international markets a few days ago. Our goal for Airo is to help more customers discover more products and engage with them at higher rates, leading to even greater monetization opportunities. As a result, we are closely monitoring cohort performance across Discovery, Engagement and Monetization.

Components of the GoDaddy Airo experience are also currently being tested in our Managed WordPress and Hub experiences, creating opportunities to save our designers and developers time and effort. We are also testing the Airo experience in Care so Guides can support our customers better and faster.

Our platform approach to GoDaddy Airo means that new capabilities are quickly coming to market. For example, we will test Airo Commerce functionality in the first half of this year, and these capabilities will extend to our partnerships as well.

On Commerce, over the last year we proved that we can sell our payments solutions into our customer base, and it was the largest driver of GPV growth last year. In fact, annualized GPV for 2023 exceeded our expectations and grew 125% year-over-year. As we enter 2024, we are looking forward to surfacing our Commerce capabilities more seamlessly with our Airo experience and doubling down on selling the full omni-commerce solution, driving higher-margin subscription revenue. This is the last of a series of proof points that set up the Commerce business for the long term, which is aligned with our overall strategy of creating customer value that ultimately drives profitable growth. As Commerce subscription revenue takes center stage and GPV growth takes lower priority, we still expect to continue to scale our base of Commerce customers by growing GPV at healthy double digits.

Closing Remarks

In closing, looking into 2024, I am excited by our ability to drive margin improvement and growth in applications and commerce, which we expect together will result in impressive improvements in free cash flow per share. Behind these improving metrics is a talented workforce that is committed to ongoing innovation. For example, every week we launch new tests, methodically track results, and share results broadly across the organization, making us better every day. The operational discipline of compounding improvements and doubling down on proof points continues to crystallize our path forward and raise our confidence to achieve our targets.

With that, here's Mark.

Mark McCaffrey, GoDaddy Chief Financial Officer

Thanks Aman. Hello everyone and thank you all for joining us. In 2023, we made significant strides in our ability to deliver a complete, integrated GoDaddy software platform to our customers. These efforts are reflected in our results that drove sustained double-digit growth of our Applications and Commerce revenue of 13 percent in the quarter, expansion of our Q4 Normalized EBITDA margin above our target, delivering 29 and a half percent and free cash flow per share above our target of $7.50 for the full year.

Fourth Quarter Results

Beginning with Q4 results, our high margin Applications and Commerce revenue grew 13 percent to $377 million and we delivered an expanded segment EBITDA margin of 44 percent, increasing 100 basis points since last quarter and 300 basis points since last year. ARR for Applications and Commerce grew 10 percent to $1.4 billion and our Create + Grow ARR was up 8 percent to $481 million. In commerce, we drove significant growth in annualized GPV to $1.7 billion, more than doubling last year's performance as conversion of our existing customers to the GoDaddy software platform remains strong.

Core Platform revenue grew 2 percent to $723 million in the fourth quarter and segment EBITDA margin grew to 32 percent, increasing two hundred basis points since last quarter and two hundred and fifty basis points since last year. ARR for Core Platform was $2.3 billion, consistent with prior year. Growth in Core Platform during the fourth quarter was supported by Domain growth of 4 percent on continued demand and price increases. Bookings growth in domains was 7 percent, providing a positive leading indicator for future domain revenue. In addition, Aftermarket grew 14 percent to $118 million on increasing volume and easier comps. As a reminder, while Aftermarket is stable on an annual basis, it is more difficult to predict quarter-to-quarter compared to our other businesses due to its transactional nature and that it relies on third party sellers and buyers to determine a mutually acceptable price.

Our gains in Core Platform were partially offset by an 11 percent decrease in hosting, as we continue our efforts to integrate GoDaddy's proprietary software platform. Bifurcating the non-branded hosting business, the continuing GoDaddy hosting revenue remains a stable, strong cash generator with high retention. The remainder of the portfolio decreased over the past several years and we have taken deliberate steps throughout 2023 to rationalize this business. We will continue to evaluate the components of this business, integrating platforms that are strategic and rationalizing platforms that are not accretive to our long-term financial model.

Total revenue in Q4 topped $1.1 billion, growing 6 percent on a reported and constant currency basis. International revenue grew 4 percent on a reported and constant currency basis to $354 million. As a reminder, our migrations and divestitures are primarily impacting international regions.

Q4 Bookings grew to $1.1 billion, up 7 percent, or 6 percent on a constant currency basis. Applications and Commerce bookings grew 16 percent on strong attach of productivity solutions and continued strength in our Create + Grow products. Core Platform bookings increased 3 percent due to the strong fourth quarter performance in Domains, offset by migration and divestiture headwinds in hosting. Subscription bookings grew 200 basis points ahead of subscription revenue.

Normalized EBITDA in Q4 grew 22 percent to $324 million, representing a 29 and a half percent margin, and an expansion of nearly 400 basis points compared to Q4 2022. The continued margin expansion was driven by the leverage gains we achieved in the second half of 2023 across all spend categories. As we shared last quarter, we continue to expect Q4 2024 Normalized EBITDA margin of approximately 31 percent with continued margin expansion in the out years, while also driving innovation, like you saw with our GoDaddy Airo experience.

As we think about this seamless experience for customers, Airo is possible thanks to the work we have done to integrate into one proprietary software platform that includes ownership of the data from domain through to transactions. And this serves as an accelerant to our model as we bundle and bring more products to market faster on the platform.

With that, during the fourth quarter, we reduced our combined Tech & Dev and capital spending by 7 percent from our migrations, divestitures and restructuring efforts throughout 2023, as well as from reduced data center capital expenditures. We expect that our Tech & Dev spend will continue to decline in absolute dollars in 2024 compared to 2023, as most of this work was completed in 2023.

Moving on to cash generation, unlevered free cash flow grew 46 percent to $347 million, while free cash flow grew 51 percent to $305 million, despite a 13 percent increase in cash interest expense year-over-year. Free cash flow per share increased 21 percent to $7.50 per share, driven by growth in applications and commerce, operating leverage improvements and share repurchases throughout 2023 which is partially offset by an increase in cash interest expense.

Balance Sheet

Turning to the balance sheet, we exited the year with half a billion dollars in cash and short-term investments and total liquidity of $1.5 billion. Net debt landed at $3.4 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.

In January 2024, we refinanced $1.8 billion of outstanding principal to secure a 50 basis point interest rate reduction. This strategic adjustment along with the repricing completed in July 2023 are together expected to reduce annualized cash interest expense by approximately $22 million.

Additionally, the cumulative shares repurchased under our current authorizations total $2.6 billion and 34.2 million shares retired. This, reduced the fully diluted shares outstanding since the inception of these authorizations by over 20 percent, achieving our three-year targeted reduction ahead of schedule. Our buybacks over the last two years have driven impressive ROI for this capital outlay, demonstrating our disciplined capital allocation framework and dedication to driving long-term shareholder value.

Annual Results

Moving on to our annual financial results, total revenue grew 4 percent, or 5 percent on a constant currency basis, to $4.3 billion. ARPU grew 3 percent to $203 as we added 100 thousand net new customers, despite the elevated churn from our ongoing platform migrations and divestitures. Customer retention remains 85 percent as we drove improvements in 2+ product attach, with greater than 50 percent of our customers paying for at least two products. These high-quality customers are stickier and give us greater pricing flexibility.

Applications and Commerce revenue grew 12 percent to $1.4 billion and Core Platform revenue was flat, totaling $2.8 billion. International revenue grew 4 percent to $1.4 billion.

Total bookings grew 4 percent, or 5 percent on a constant currency basis to $4.6 billion.

Full year Normalized EBITDA grew 12 percent to $1.1 billion, representing a 27 percent margin for the year, an expansion of nearly two hundred basis points over the prior year.

Lastly, full year unlevered free cash flow grew 14 percent to $1.3 billion and free cash flow grew 12 percent to $1.1 billion, both exceeding our guide for the year and showing impressive Normalized EBITDA to cash conversion of nearly one to one.

Outlook

Moving on to our outlook, for the full year, we expect total revenue to be within a range of $4.48 billion to $4.56 billion, representing growth of over 6 percent at the midpoint of the range. When excluding the approximate 100 basis point impact of divestitures and migrations, that we will lap in the year, our growth would be 7 percent at the midpoint of the range.

In Application and Commerce, we are projecting revenue growth of low to mid-teens for Q1 and the full year. In Core Platform, we are projecting revenue growth of low single digits for Q1 and the full year.

As we have shared previously, the entire GoDaddy team is committed to maintaining operational discipline and deploying opportunities to gain further leverage within our model. We delivered on this commitment in 2023 and expect to continue this trend in 2024, resulting in an expected Normalized EBITDA margin of approximately 29 percent for the full year.

For the full year of 2024, we are targeting unlevered free cash flow of at least $1.4 billion, free cash flow of at least $1.2 billion, and free cash flow per share of approximately $9.00, representing a growth rate of 20 percent, for the full year of 2024. In 2024, we expect capital expenditures of $35 million and cash interest payments of $155 million, representing reduced spend of 11 percent over 2023. In addition, we expect income tax payments of approximately $30 million. On share repurchases, we expect to buy back shares under our remaining $1.4 billion authorization using our disciplined capital allocation framework that we've applied in past quarters. Capital return has been and will continue to be a priority for GoDaddy, along with prudently managing our balance sheet, as we look to drive compounding returns for our shareholders.
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For Q1 2024, we are targeting total revenue of $1.085 to $1.105 billion, representing nearly 6 percent growth at the midpoint of the range.

As a reminder, because of the timing of certain marketing spend, such as the spend that support our heavy renewal cycle in Q1 and the spend related to our launch of GoDaddy Airo, our Normalized EBITDA margin will build over the course of 2024. As a result, we expect Q1 Normalized EBITDA to be 27 percent, representing a nearly 300 basis point expansion over Q1 2023. Over the course of the year, Normalized EBITDA is expected to increase to approximately 31 percent as we exit the year, which averages to approximately 29 percent for the full year. We are proud of our record of accomplishment of increasing margins on an absolute basis and compared to our own initial guidance over the last three years. Investors should continue to see this discipline moving forward.

Closing Remarks

In summary, we remain dedicated to actively managing our business through a combination of durable top line growth and improving profitability. We are focused on balancing the two to drive our strong free cash flow, which, when coupled with our disciplined capital allocation framework, creates significant value for our shareholders. We see an exciting path and have strong confidence in our ability to execute against our strategic priorities.

At our Investor Day on March 6th, we will demo the expanded capabilities of GoDaddy Airo and commerce as well as discuss long term growth, profitability expectations and levers which provide a clear view of the potential we see, our capital allocations framework and the shareholder value it will create. We are committed to providing the information you need to understand our long-term strategy and initiatives, model the business confidently, value the business effectively, and hold us accountable for executing against our stated objectives. We'll end the day with Q&A, hosted by our management team.

Forward Looking Statements

These prepared remarks reference both GAAP and non-GAAP financial results and 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 investors.godaddy.net or in today’s earnings release included in our Form 8-K filed 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 our 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 the forward-looking statements. Any forward-looking statements that we make in these remarks are based on assumptions as of today, February 13, 2024, and except to the extent required by law, we undertake no obligation to update these statements because of new information or future events.