

April 6, 2018

GoDaddy Inc. : GDDY

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Sector: Information Technology
 Industry: Internet Based Services
 Current Price: \$59.86
 Target Price: \$73.52

GoDaddy Inc. is an internet solutions and services company that provides domain names, online presence management, social media management, online marketing, online business management with a partnership with Microsoft Suite, and website security. The company is best in class as a domain registrar with live auctions and domain brokers. GoDaddy's goal is to provide customers with wholesome website management to increase customer's online presence.



BUY

Current Price: \$59.86
 Target Price: \$73.52
 Market Cap: 10.2B
 Debt Rating: b+
 WACC: 10.5%
 ROIC: 4.22%

Catalysts:

- Recent acquisition of Main Street Hub to expand customer base and add to their suite of online solutions
- Close out of previous acquisition in August of 2017, pushing their international presence specifically in Europe

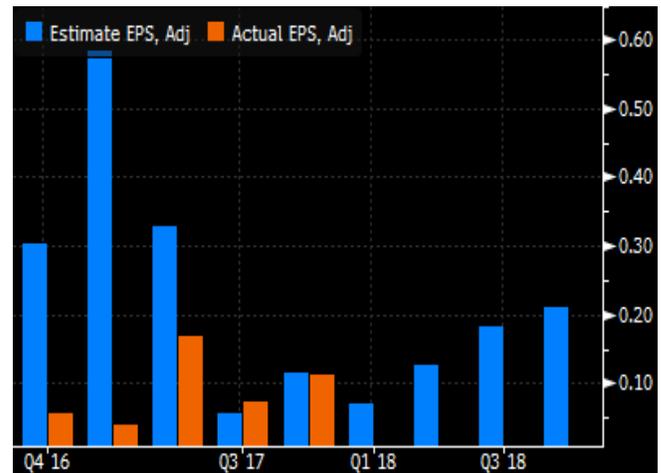
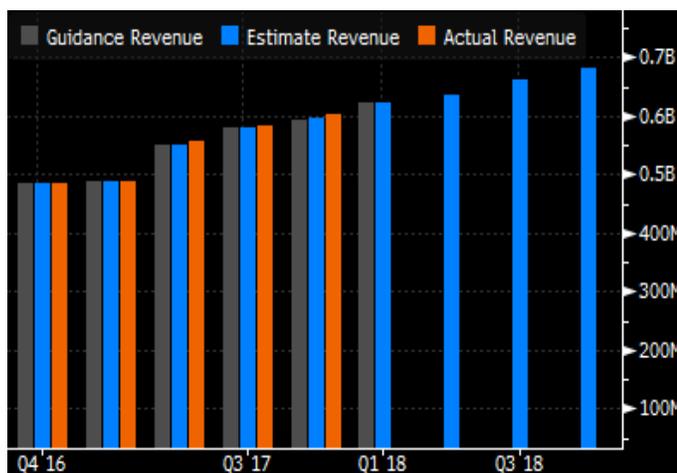
Thesis:

GoDaddy is the world's number one domain registrar with over 17 million customers and growing. They have consistently driven revenue since their first pricing date in April of 2015 through strategic and aggressive acquisitions coupled with proper management of costs to drive margins. Revenue growth YoY for 2015, 2016, and 2017 were 15.9%, 15.0%, and 20.8%, respectively. This history of strong revenue growth bodes well for future growth potential as long as they're conscious of their SG&A spend, with cost of goods being extremely low (~34.7% of revenue).

Earnings:

GoDaddy was first priced in Q2 of 2015 with data only back to Q4 of 2016. In terms of revenue, GoDaddy has matched the guidance and analyst estimates up until Q2 of 2017, where the company started to outperform both guidance and analyst estimates slightly. The company reported 27.1% YoY growth in revenue for Q4 with full year YoY growth of 20.8%. The company is highly sensitive to shifts in revenue, with low cost of goods sold and the bulk of their costs in operating expenses. To combat this, GoDaddy focuses on an intense marketing strategy to build on top of their already 17M strong customer base. The marketing spend is directed on new customer acquisition since GoDaddy customers create a lifetime value of ~10 times the cost to acquire them (Q4 2017 Earnings Call). Investment into international markets such as Asia, India, and Europe are also contributing to strong revenue growth; international revenue grew 53% YoY for Q4. The 2016 acquisition of Host Europe Group (HEG) was closed out in August of 2017. HEG is the largest web service provider in Europe and was acquired for \$1.79B, 35% paid to shareholders and the remaining 65% in net debt. This acquisition will be discussed in greater detail later on, but is noteworthy in terms of a revenue driver for the company's international presence – U.S. makes up 67.4% while international accounts for the remaining 32.6%, up from 26.9% in 2016.

In terms of adjusted EPS, analyst estimates were completely misguided for the company's first full year on the market. Starting in Q3 of 2017, estimates started to become more realistic as the company settled into the NYSE; also in Q3 2017 actuals outperformed the estimates and matched the estimates in Q4 2017. Forward



looking, estimates start to ramp up favorably since the company is now highly correlated to their adjusted EPS estimates with a minor dip in Q1 for 2018.

Products:

GoDaddy products are a slew of internet solutions for companies of all sizes. Their main product is domains, where they sell domain names and hold an online marketplace for them where future customers can auction for desired names. Along with auctioning new domain names, they also provide services to transfer previously held domains, provide domain extensions (to reach other markets such as adding to a .com a .net), and a domain value appraisal where domain names can be valued for resale.

Trust us with all the details.

GoDaddy didn't get to be the world's largest registrar by accident. We can handle all your domain needs.



Transfer your domains to us

Simplify your life – transfer all your domains to GoDaddy. A few steps is all it takes and help is available 24/7.

[Learn More](#)



Buy domains in bulk

Search for as many as 500 domains – and dozens of domain extensions like .com, .net and .org -- at one time with our bulk search tool.

[Learn More](#)



Get the one you really want

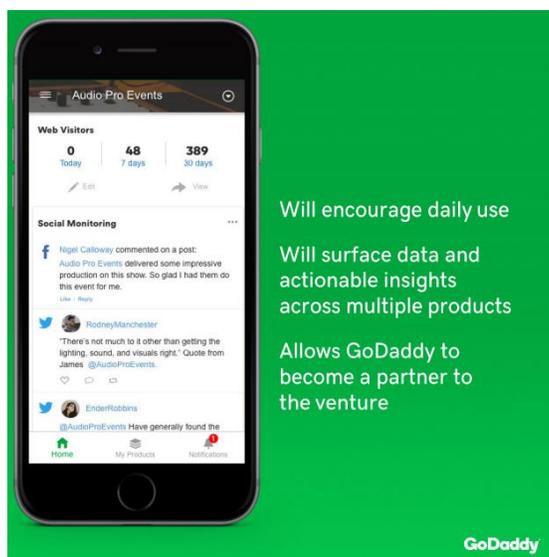
If your perfect domain is already registered to someone else, a GoDaddy broker can help get it for you.

[Learn More](#)

After a domain is acquired, GoDaddy also does website building and designing. With their massive customer base, they have past templates to choose from along with premium templates for sale. They're also partnered with WordPress, the leading online blogging software for blog designs and functionality. If templates don't suffice, usually for larger companies, web design experts can be hired from GoDaddy or sourced locally to completely customize a website.

To power these websites, the company provides web hosting in three different forms. The first is shared web hosting, where the website is a part of a shared server and targeted for smaller companies or websites that don't handle too much traffic. The second is a slightly less shared server called Virtual Private Server (VPS) that adds more power and flexibility. Lastly is a dedicated server, the most expensive option that holds your website alone; this is directed at larger companies that handle a high volume of traffic.

Promotional tools for online marketing serve to put out local business listings, search engine visibility, email marketing, and social media engagement. With a recent acquisition of Main Street Hub that is expected to close out in late Q2 of 2018, GoDaddy will increase their social media management with active employees assigned to companies, providing full social media management for a company.



Will encourage daily use

Will surface data and actionable insights across multiple products

Allows GoDaddy to become a partner to the venture

GoDaddy is also partnered with Microsoft, to allow online use of the full Microsoft suite which is paid for per user a month. This product is priceless to companies due to its ability to provide professional email access, cloud storage for data, and with advanced packages, archiving and encryption.

To protect these products, GoDaddy offers web security to combat against viruses and hackers through SSL certificates to boost a site's Google rank and McAfee Secure Trustmark (online web security rating tools).

These products can be easily managed and monitored via a mobile app. This app allows customers to look at how many hits their site is getting, what's going on with their social media presence, and manage their products listed on the website.

Competitors:

GoDaddy is best in class when it comes to internet based solutions. In terms of revenue growth, GoDaddy outperforms its' competitors median by about 1.77% while growing their EBITDA by 35.06% in the last year while the peers median sits at 14.76%. Strong growth in EBITDA can be attributed to their heavily increasing revenue from \$1.8B in 2016 to \$2.2B in 2017 while maintaining low cost of goods resulting in a ~\$30M increase in operating income from 2016 to 2017. As a result, GoDaddy is able to stay ahead of the median in terms of revenue growth along with heavily beating the EBITDA growth percentage for the year.

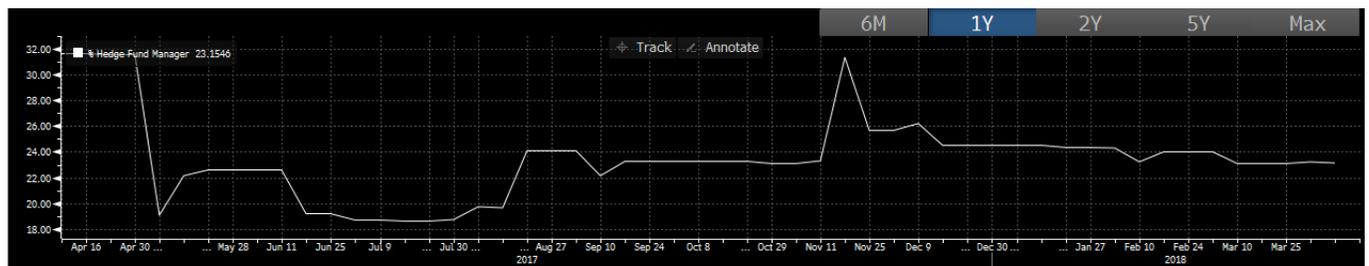
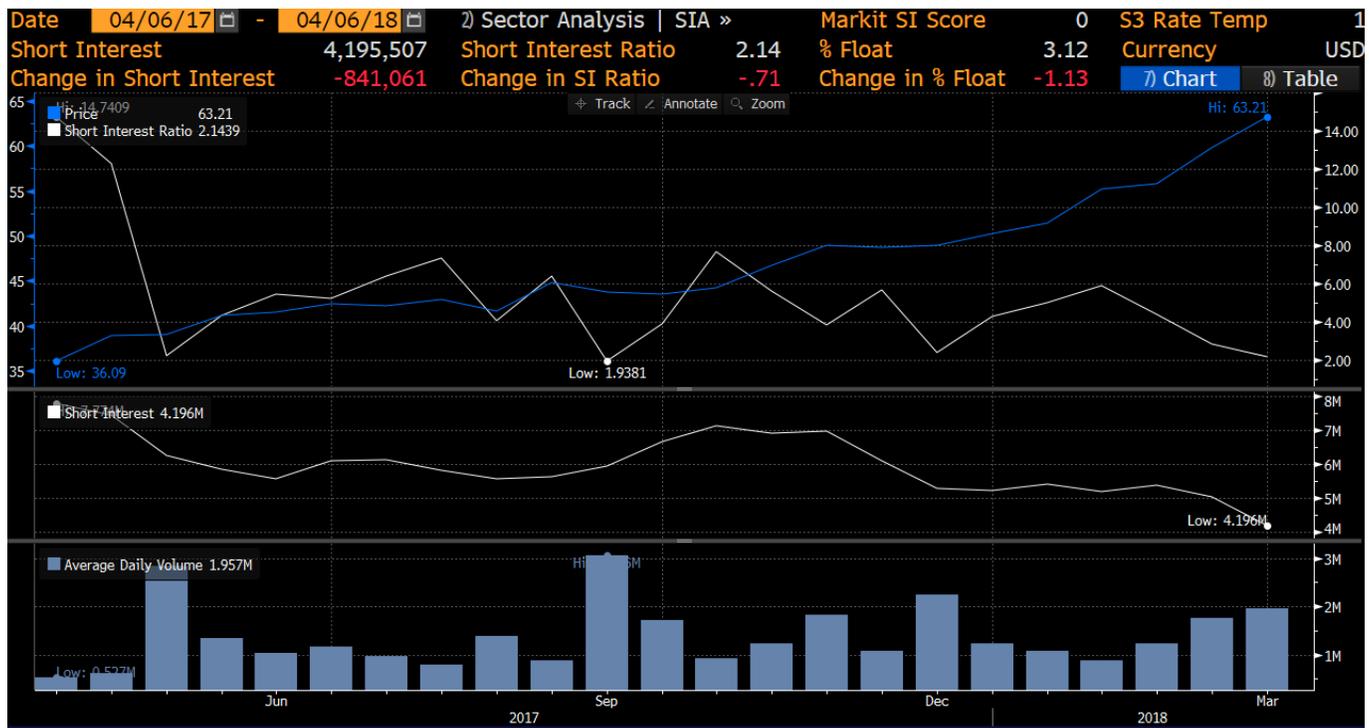
GoDaddy uses Danica Patrick as the face of their marketing campaigns, something the competition has yet to do at the level that GoDaddy does. She's in their commercials and all over their website, branding GoDaddy to Danica Patrick so when you think about one, you think about the other.

Name	Sales Growth (%)	EBITDA Growth (%)	T12M EBITDA Mrgn:Q	ROIC/WACC Ratio	Return on
Median	19.01%	14.76%	15.48%	0.43	8.08%
100) GODADDY INC - CLASS A	20.78%	35.06%	13.43%	0.43	11.13%
101) VERISIGN INC	2.01%	0.33%	64.13%	4.62	--
102) GRUBHUB INC	38.46%	25.65%	22.27%	0.63	6.76%
103) ZILLOW GROUP INC - A	27.19%	83.99%	11.93%	-0.22	0.17%
104) MATCH GROUP INC	19.01%	13.91%	30.05%	1.77	87.35%
105) TRIPADVISOR INC	5.14%	-11.65%	15.10%	0.12	3.73%
106) EXPEDIA GROUP INC	14.66%	14.76%	15.48%	0.37	9.40%

Ownership/SI:

The short interest for GoDaddy is highly favorable. The short interest ratio is currently at 2.14 after a steady decrease in the about the last month. The divergence of the increasing price to short interest ratio displays confidence in GoDaddy's ability to create value in the future. Days to cover is currently 2.1 and averages very high volume at 1.957M. In terms of ownership, the second graph is a one year historical chart of hedge fund manager's percentage of ownership. It's been relatively constant in 2018 due to the continued growth in price

which hedge managers are riding out. Overall, with low short interest and steady hedge fund involvement, its evident GoDaddy will create value in the future.



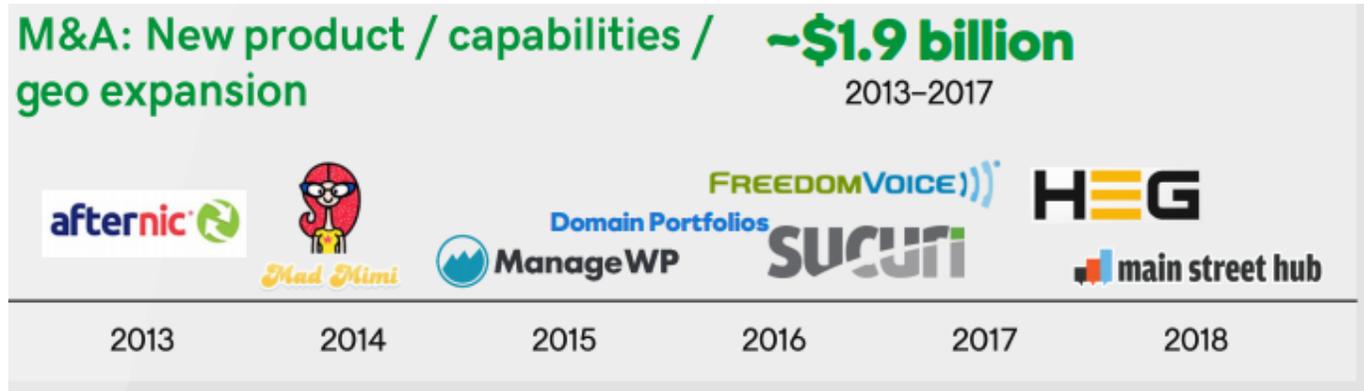
M&A:

GoDaddy has an aggressive M&A strategy as illustrated on the timeline below of their acquisitions over the last 5 years. The two most notable acquisitions are their most recent of Host Europe Group and Main Street Hub. HEG is Europe’s largest web service provider as mentioned previously. This acquisition is geographically centered since GoDaddy has expanded their international business to 56 global markets in the last four years. The purchase price was reportedly for 11 times HEG’s 2016 adjusted EBITDA including anticipated annual synergies (GoDaddy Press Release). This strategic acquisition is not only for international expansion purposes but also due to the parallel strategic alignment of the companies. HEG customers will now be aware of the various solutions offered by GoDaddy and vice versa.

The most recent acquisition of Main Street Hub is estimated to close late in Q2 2018. Main Street Hub will add GoDaddy’s social media solutions and specifically hands free management of a customer’s social media accounts. Main Street Hub includes branding experts and workflow technology to actively maintain

accounts (Q4 2017 Earnings Call). The transaction is for \$125M in cash plus up to \$50M in potential future earn outs, with no EBITDA multiple disclosed (TechCrunch Article).

GoDaddy’s acquisition strategy sets them apart from their peers. Acquiring companies that are so correlated to GoDaddy’s technology stack along with business strategy allows smooth integration of new solutions and continually provides existing and prospective customers with everything they need online.



Conclusion:

GoDaddy Inc. is a buy at its current price of \$59.86. The company is pushing their presence globally and driving strong revenue growth through strategic acquisitions that will not only add to their 17M customer base but provide their wholesome approach to internet solutions with new product lines. With an extremely low cost of goods, GoDaddy is able to spend more on their unique marketing campaigns, such as Danica Patrick and their controversial commercials that viewers don’t forget. GoDaddy is best in class because they do everything a customer may need in terms of online presence through their aforementioned array of solutions from domain names to web design to social media management.

GoDaddy Inc. (GDDY)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Zachary DeLeonardo
4/6/2018

Current Price: **\$59.25**
Dividend Yield: **0.0%**

Intrinsic Value **\$60.64**
Target Price **\$73.52**

Target 1 year Return: 24.08%
Probability of Price Increase: 89.67%



Description		Market Data	
GoDaddy Inc. designs and develops cloud-based technology products for small businesses, Web design professionals, and individuals in the United States and internationally.		Market Capitalization	\$8,695.28
General Information		Daily volume (mil)	1.45
Sector	Information Technology	Shares outstanding (mil)	146.76
Industry	Internet Software and Services	Diluted shares outstanding (mil)	177.05
Last Guidance	February 12, 2018	% shares held by institutions	109%
Next earnings date	May 7, 2018	% shares held by investments Managers	52%
Market Assumptions		% shares held by hedge funds	25%
Estimated Equity Risk Premium	5.33%	% shares held by insiders	0.18%
Effective Tax rate	22%	Short interest	2.86%
		Days to cover short interest	3.02
		52 week high	\$64.49
		52-week low	\$36.02
		Volatility	0.00%

Quarter ending	Revenue	EBITDA
12/31/2016	0.14%	-34.28%
3/31/2017	0.35%	-66.95%
6/30/2017	1.14%	-50.95%
9/30/2017	0.45%	-100.00%
12/31/2017	1.27%	-25.90%
Mean	0.67%	-55.61%
Standard error	1.0%	2.5%

Recommendation (STARS) Value	Market and Credit Scores
Value--0	Recommendation (STARS) Description--0
Quality Ranking Value--0	Quality Ranking Description--0
Short Score--0	Market Signal Probability of Default % (Non-Ratings)
Market Signal Probability of Default % (Non-Ratings)	-0.36%
CreditModel Score (Non-Ratings)--b+	

LTM Revenues by Geographic Segments	LTM Revenues by Business Segments
United States (U.S.)--67%	Internet Software & Services--100%
International--33%	--
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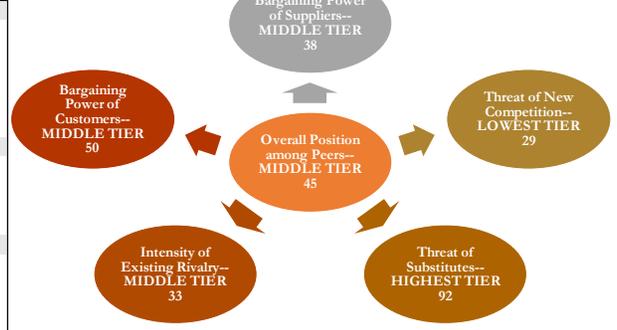
Management	Position	Total Compensations Growth
Wagner, Scott	Chief Executive Officer	-48.18% per annum over 3y
Parsons, Robert	Founder & Non-Employee Director	-12.94% per annum over 3y
Winborne, Raymond	Chief Financial Officer	0% per annum over 0y
Kelly, Nima	Executive VP & General Counsel	0% per annum over 0y
Rechterman, Barbara	Chief Marketing Officer	0% per annum over 0y
Carroll, James	Executive Vice President of Global Platform Dev	10.18% per annum over 3y

Stock Price Growth During Tenure	Peers' Median (LTM)
64.20%	24.12%
2.66	15.0%
23.3%	0.64

Peers
Zillow Group, Inc.
GrubHub Inc.
Shopify Inc.
VeriSign, Inc.
Nutanix, Inc.

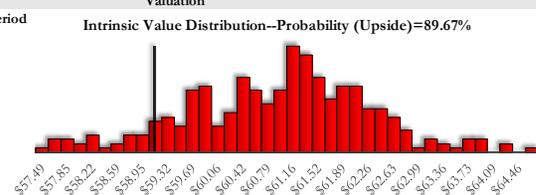
Profitability	GDDY (LTM)	GDDY Historical	Peers' Median (LTM)
Return on Capital (GAAP)	9.6%	-1.25%	64.20%
Operating Margin	10%	-5.88%	24.12%
Revenue/Capital (GAAP)	0.92	0.21	2.66
ROE (GAAP)	14.9%	2.1%	15.0%
Net margin	8.2%	1.5%	23.3%
Revenue/Book Value (GAAP)	1.82	1.36	0.64

Invested Funds	GDDY (LTM)	GDDY Historical	Peers' Median (LTM)
Cash/Capital	14.6%	8.0%	62.5%
NWC/Capital	-27.7%	-18.0%	-26.2%
Operating Assets/Capital	42.1%	59.8%	-11.6%
Goodwill/Capital	71.0%	50.3%	75.2%



Capital Structure	GDDY (LTM)	GDDY Historical	Peers' Median (LTM)
Total Debt/Market Capitalization	0.70	0.39	0.52
Cost of Debt	4.5%	5.6%	5.2%
CGFS Rating (F-score, Z-score, and default Probability)	CCC		
WACC	11.3%	8.9%	10.2%

Valuation
Intrinsic Value Distribution--Probability (Upside)=89.67%



Forecast Assumptions	Explicit Period (10 years)	Continuing Period
Revenue Growth CAGR	7%	7%
Average Operating Margin	24%	24%
Average Net Margin	14%	15%
Growth in Capital CAGR	8%	2%
Growth in Claims CAGR	0%	2%
Average Return on Capital	9%	6%
Average Return on Equity	14%	7%
Average Cost of Capital	7%	7%
Average Cost of Equity	8%	8%

