

GoDaddy Inc. (GDDY)

\$70.19 (As of 08/03/20)

Price Target (6-12 Months): **\$74.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/17/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: A

Summary

GoDaddy is benefiting from well-performing personalized products and services. Further, its robust technology platform is contributing well. Furthermore, growing adoption of its domain products is driving the top-line growth. Rising subscriptions to Websites and Marketing, and robust managed WordPress offerings are driving growth in the Hosting and Presence segment. Further, international expansion, robust feature engagements and strength in GoCentral remain major positives. Additionally, growing momentum of Open-Xchange in the emerging markets is likely to accelerate revenues within the Business Applications segment. However, the company's heavy debt burden and rising expenses are concerns. Also, intensifying market competition poses threat to GoDaddy's market position. The stock has underperformed the industry on a year-to-date basis.

Data Overview

52 Week High-Low	\$84.49 - \$40.25
20 Day Average Volume (sh)	1,641,987
Market Cap	\$11.7 B
YTD Price Change	3.3%
Beta	0.86
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Delivery Services
Zacks Industry Rank	Bottom 27% (186 out of 254)

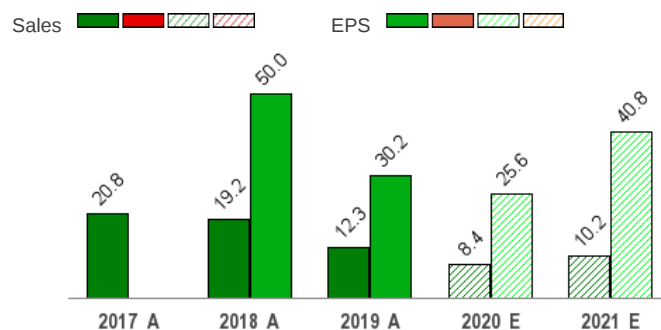
Last EPS Surprise	26.3%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.2%
Expected Report Date	08/05/2020
Earnings ESP	38.4%

P/E TTM	62.1
P/E F1	68.2
PEG F1	4.0
P/S TTM	3.8

Price, Consensus & Surprise



Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	867 E	877 E	901 E	929 E	3,569 E
2020	792 A	794 E	812 E	840 E	3,238 E
2019	710 A	737 A	761 A	780 A	2,988 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.32 E	\$0.21 E	\$0.42 E	\$0.37 E	\$1.45 E
2020	\$0.24 A	\$0.17 E	\$0.28 E	\$0.34 E	\$1.03 E
2019	\$0.07 A	\$0.13 A	\$0.42 A	\$0.34 A	\$0.82 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/03/2020. The reports text is as of 08/04/2020.

Overview

Based in Scottsdale, AZ, **GoDaddy** is an Internet domain registrar and web hosting company that also sells e-business related software and services. The company is engaged in the designing and development of cloud-based technology products for small businesses, Web design professionals and individuals.

GoDaddy — listed on the New York Stock Exchange under the ticker “GDDY” — went public on Apr 2, 2015. The company priced its initial offering at \$20 a share.

GoDaddy reported revenues of \$2.99 billion in 2019, up 12.7% year over year. The company generates revenues from three segments — Domains (45% of revenues), Hosting and Presence Offerings (38%) and Business Applications (17%).

Domain revenues mainly consist of sale of domain name registration subscriptions, domain add-ons and aftermarket sales. Hosting and presence revenues principally consist of subscription sales to their website hosting products, website building products and SSL certificates. Business applications revenues primarily consist of revenues from the sale of subscriptions for email accounts, online calendar, online data storage and email marketing tools.

The company's subscription terms are typically one year but can range from monthly to multi-year contracts of up to 10 years depending on the product. Usually, the company collects the entire subscription fee at the time of sale but recognizes revenues from subscriptions ratably over the applicable contractual terms.

GoDaddy faces significant competition in domain, hosting and presence markets from companies like Endurance, Rightside and Web.com. Additionally, web-hosting and other cloud-based service providers like Amazon, Google and Microsoft that have recently entered the domain name registration business as upstream registries, and eBay and Facebook, which offer robust Internet marketing platforms have intensified competition in the space.



Reasons To Buy:

- ▲ GoDaddy boasts a **huge customer base and steady revenue and booking growth**. The company has a leading position in the industry, with one out of every five domain registrations. The company had approximately 19.3 million customers as of December 2019, an increase of 4.1% versus a year ago, mainly small and medium-sized businesses that pay annual subscription fees to register domain names and get other online services like web hosting. Also, GoDaddy's bookings increased 12.9% from 2019.
- ▲ **Increasing international presence** keeps the growth prospects of GoDaddy high. In 2019, the company's 8 million or 44% customers were located in international markets, notably Canada, India and the United Kingdom. To continue expanding its international presence, the company is investing in technology, marketing programs, data centers and customer care teams. Moreover, the acquisition of HEG will continue to help the company in expanding its customer base in international regions.
- ▲ GoDaddy has been supplementing organizational growth with strategic **acquisitions**. When deciding on a target, management generally looks for a particular niche expertise, which would round out its portfolio or help it to expand its international operations. For this purpose, in April 2017, it acquired Host Europe Group ("HEG"), a European web hosting provider. The deal is strengthening GoDaddy's foothold in the European market. The company also acquired Serbia based WordPress site management tool maker, ManageWP. This deal enables GoDaddy to provide a single destination for web professionals to manage their WordPress sites. The acquisition was intended to augment GoDaddy's portfolio and build its global market share. Further, GoDaddy acquired Main Street Hub in 2018 which helped it in introducing social media management tools.

GoDaddy's leading market position, strategic acquisitions, international expansion and a diversified product portfolio are positives.

Reasons To Sell:

- ▼ GoDaddy faces **intense competition** in domain, hosting and presence markets from companies like Endurance, Rightside, and Web.com, as well as Amazon, Google and Microsoft which provide web-hosting and other cloud-based services and recently entered the domain name registration business as upstream registries, and eBay and Facebook, offering robust Internet marketing platforms. Along with these big cloud companies, a lot of small hosting companies offer extremely affordable services. (For instance, DigitalOcean).
- ▼ Even after the IPO, GoDaddy carries a **substantial debt burden** of more than \$1 billion. This in turn will take up a lot of cash flow to cover interest payments and make it difficult for the company to navigate if the economy weakens. The debt has to be paid off or refinanced between 2019 and 2021. Moreover, GoDaddy's balance sheet remains highly leveraged. As of Mar 31, 2020, the company's net debt was \$1.7 billion compared with \$1.5 billion as of Dec 30, 2019. Also, debt-to-total capital was 84.1% as of Mar 31, 2021, much higher than the industry average of 27.7%.
- ▼ We note that GoDaddy currently has a trailing 12 month P/S ratio of 3.45, which compares unfavorably with what the Zacks industry saw over the last year. Hence, valuation looks slightly stretched from a P/S perspective.

The increasing competition and the company's substantial debt burden remain concerns.

Last Earnings Report

GoDaddy Surpasses Q1 Earnings and Revenue Estimates

GoDaddy Inc. reported first-quarter 2020 adjusted earnings of 24 cents per share, beating the Zacks Consensus Estimate of 19 cents. Also, the bottom line was up 242.9% from the year-ago quarter.

The company generated revenues of \$792 million, up 11.5% year over year or 12.3% on a constant-currency basis. The reported figure surpassed the Zacks Consensus Estimate by 0.2%.

The revenue growth was driven by strong performance of its product segments on a year-over-year basis.

International revenues were \$262.4 million in the first quarter, up 7.1% year over year or 9.1% on a constant-currency (cc) basis.

Segmental Revenues

GoDaddy generates revenues from three segments — Domains, Hosting and Presence, & Business Applications.

Domains: The company generated revenues of \$355.9 million (accounting for 45% of total revenues) from this segment. The figure improved 11.4% from the year-ago quarter on higher average selling price.

Hosting and Presence: This segment generated revenues of \$297.2 million (38% of revenues), increasing 10.5% on a year-over-year basis. The revenue growth can be primarily attributed to higher subscriptions to Websites and Marketing, along with managed WordPress offerings.

Business Applications: Revenues from this segment came in at \$138.9 million (17% of revenues), increasing 14.3% year over year.

Operating Metrics

GoDaddy uses total bookings as a performance measure, since payment is usually collected at the time of sale, and recognizes revenues ratably over the term of customer contracts. In the first quarter, total bookings of \$951.1 million increased 9.3% year over year or 10.1% on a cc basis.

Operating Results

Gross margin was 65%, down 170 basis points from the prior-year quarter.

Operating expenses (technology and development, marketing and advertising, & general and administrative) of \$313.1 million increased 1.9% year over year.

Balance Sheet & Cash Flow

At the end of the first quarter, total cash and cash equivalents, along with short-term investments were \$851.4 million compared with \$1.09 billion in fourth-quarter 2019. Accounts and other receivables were \$31.6 million compared with \$30.2 million in the fourth quarter.

Long-term debt was \$18.4 billion at the end of the first quarter, flat sequentially.

Net cash provided by operating activities was \$233.3 million compared with \$162.2 million in the fourth quarter. Capital expenditure was \$13.5 million at first quarter-end.

Additionally, adjusted free cash flow was \$234.5 million during the reported quarter.

Guidance

For the second quarter, management expects revenues to be \$790 million, indicating year-over-year growth of 7%.

Segment wise, revenue growth is expected to be in high single digits in Domains, mid single digits in Hosting and presence, and mid teens in Business Applications.

Quarter Ending **03/2020**

Report Date	May 06, 2020
Sales Surprise	0.23%
EPS Surprise	26.32%
Quarterly EPS	0.24
Annual EPS (TTM)	1.13

Recent News

On **Jun 24, 2020**, GoDaddy announced a restructuring plan that will impact 814 employees due to soft demand for higher-priced services and continued uncertainties resulting from the COVID-19 pandemic.

On **April 9**, GoDaddy announced that it has acquired Neustar Inc.'s Registry business for an undisclosed amount. The financial terms of the deal have been still kept under wraps. The deal is expected to close in second-quarter 2020, subject to regulatory approvals and other customary closing conditions.

Valuation

GoDaddy shares are up 3.3% in the year-to-date period and 7.7% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 23.5% and the Zacks Computer & Technology sector is up 18.1% in the year-to-date period. Over the past year, the Zacks sub-industry is up 36.1% and the sector is up 36.7%

The S&P 500 index is up 1.6% in the year-to-date period and 15.5% in the past year.

The stock is currently trading at 3.4X forward 12-month sales, which compares to 1.2X for the Zacks sub-industry, 4.01X for the Zacks sector and 3.59X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.07X and as low as 2.06X, with a 5-year median of 3.3X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our \$74 price target reflects 4X forward 12-month sales.

The table below shows summary valuation data for GDDY

Valuation Multiples - GDDY					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	3.4	1.2	4.01	3.59
	5-Year High	5.07	1.33	4.01	3.59
	5-Year Low	2.06	0.77	2.32	2.53
	5-Year Median	3.3	1	3.14	3.04
EV/Sales TTM	Current	4.77	1.04	3.9	2.82
	5-Year High	6.49	2.77	4.43	3.43
	5-Year Low	2.81	0.75	2.58	2.11
	5-Year Median	4.43	1.34	3.58	2.8
EV/EBITDA TTM	Current	22.4	15.4	13.02	8.52
	5-Year High	62.13	78.5	13.02	12.88
	5-Year Low	19.75	14.18	7.67	8.31
	5-Year Median	32.7	22.3	10.53	10.78

As of 08/03/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (186 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
Shopify Inc. (SHOP)	Outperform	2
Booking Holdings Inc. (BKNG)	Neutral	3
Endurance International Group Holdings, Inc. (EIGI)	Neutral	2
Facebook, Inc. (FB)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
Zillow Group, Inc. (ZG)	Neutral	2
Yelp Inc. (YELP)	Underperform	3

Industry Comparison Industry: Internet - Delivery Services				Industry Peers		
	GDDY	X Industry	S&P 500	FB	GOOGL	MSFT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	A	-	-	A	A	B
Market Cap	11.69 B	618.23 M	22.67 B	717.86 B	1,012.16 B	1,638.70 B
# of Analysts	8	2.5	13.5	12	12	14
Dividend Yield	0.00%	0.00%	1.77%	0.00%	0.00%	0.94%
Value Score	C	-	-	C	B	D
Cash/Price	0.07	0.13	0.07	0.08	0.12	0.09
EV/EBITDA	31.29	27.59	13.08	21.90	17.62	27.03
PEG Ratio	4.10	1.29	2.94	1.72	2.11	2.47
Price/Book (P/B)	24.24	3.56	3.10	6.50	4.88	13.85
Price/Cash Flow (P/CF)	34.15	27.16	12.34	29.66	21.35	28.71
P/E (F1)	69.64	18.11	21.71	33.30	34.10	33.87
Price/Sales (P/S)	3.81	1.21	2.46	9.55	6.10	11.46
Earnings Yield	1.47%	2.83%	4.38%	3.00%	2.93%	2.95%
Debt/Equity	5.24	0.03	0.75	0.09	0.07	0.57
Cash Flow (\$/share)	2.06	0.56	6.94	8.49	69.45	7.54
Growth Score	A	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	102.39%	18.02%	10.46%	42.58%	22.11%	19.44%
Proj. EPS Growth (F1/F0)	25.16%	26.24%	-7.08%	17.68%	-11.56%	10.99%
Curr. Cash Flow Growth	4.21%	-15.11%	5.47%	-8.33%	12.62%	17.66%
Hist. Cash Flow Growth (3-5 yrs)	80.70%	21.00%	8.55%	38.21%	19.91%	10.19%
Current Ratio	0.64	1.01	1.32	6.02	3.41	2.52
Debt/Capital	83.97%	3.77%	44.21%	8.02%	6.63%	36.24%
Net Margin	5.44%	4.04%	10.25%	31.29%	18.99%	30.96%
Return on Equity	27.82%	5.43%	14.72%	22.90%	15.62%	39.45%
Sales/Assets	0.49	0.60	0.52	0.56	0.61	0.50
Proj. Sales Growth (F1/F0)	8.37%	0.00%	-1.79%	12.54%	7.65%	8.57%
Momentum Score	A	-	-	A	A	A
Daily Price Chg	-0.13%	0.35%	0.27%	-0.67%	-0.35%	5.62%
1 Week Price Chg	2.43%	2.33%	0.14%	9.95%	-1.34%	1.84%
4 Week Price Chg	-0.54%	0.22%	2.96%	4.86%	-1.13%	2.77%
12 Week Price Chg	-7.00%	24.54%	10.90%	18.19%	5.64%	15.96%
52 Week Price Chg	7.70%	0.80%	2.35%	38.65%	28.41%	63.78%
20 Day Average Volume	1,641,987	287,028	2,043,624	22,027,900	1,811,309	37,808,288
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	5.38%	3.37%	0.00%
(F1) EPS Est 4 week change	0.24%	0.00%	0.82%	7.87%	5.45%	2.51%
(F1) EPS Est 12 week change	11.72%	-4.20%	0.59%	6.96%	4.84%	3.00%
(Q1) EPS Est Mthly Chg	0.45%	0.00%	0.25%	13.97%	6.98%	3.89%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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