

GoDaddy Inc. (GDDY)

\$77.63 (As of 02/18/20)

Price Target (6-12 Months): **\$82.00**

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: D

Growth: A

Momentum: A

Summary

GoDaddy reported solid fourth-quarter revenues driven by strong product demand and efficient execution. The company continues to ride on personalized products and services, and the technology platform. Growing adoption of its domain products continues to drive top-line growth. Acquisitions, international expansion, robust feature engagements and strength in GoCentral are driving growth of the Hosting and Presence segment. Moreover, increasing subscription of GoCentral remains a major positive. Additionally, growing momentum of Open-Xchange in emerging markets is likely to accelerate revenues within the Business Applications unit. However, the company's heavy debt burden and rising expenses remain concerns. Notably, the stock has outperformed the industry it belongs to in the past year.

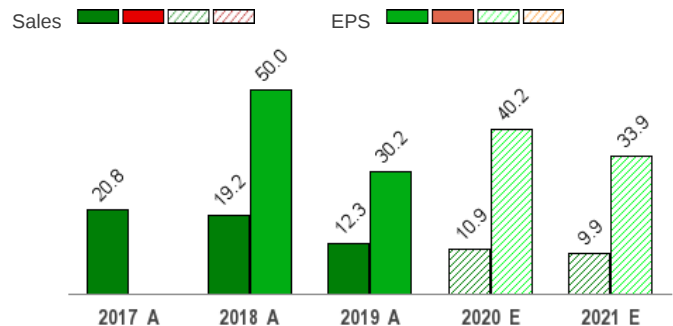
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$82.30 - \$59.93
20 Day Average Volume (sh)	1,303,275
Market Cap	\$13.4 B
YTD Price Change	14.3%
Beta	0.67
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Delivery Services
Zacks Industry Rank	Top 30% (76 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.1%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	2.6%
Expected Report Date	05/07/2020
Earnings ESP	7.2%
P/E TTM	80.9
P/E F1	67.5
PEG F1	4.0
P/S TTM	4.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	869 E	899 E	923 E	946 E	3,640 E
2020	794 E	815 E	840 E	860 E	3,313 E
2019	710 A	737 A	761 A	780 A	2,988 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.26 E	\$0.28 E	\$0.48 E	\$0.49 E	\$1.54 E
2020	\$0.19 E	\$0.23 E	\$0.34 E	\$0.36 E	\$1.15 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 02/18/2020. The reports text is as of 02/19/2020.

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 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.

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.



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. There remains the risk that lenders might be unwilling to finance the company then and interest rates could also increase. This will make it harder for GoDaddy to earn profits.
- ▼ 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 Q4 Earnings Miss Estimates, Revenues Beat

GoDaddy Inc. reported fourth-quarter 2019 adjusted earnings of 34 cents per share, missing the Zacks Consensus Estimate of 37 cents. Also, the bottom line was up 21.4% from the year-ago quarter.

The company generated revenues of \$780.4 million, up 12.2% year over year or 13% on a constant-currency basis. The reported figure surpassed the Zacks Consensus Estimate by 0.4%.

The revenue growth was driven by strong performance of its product segments on a year-over-year basis. Also, the increase in revenue per user aided growth.

International revenues were \$261.4 million in the fourth quarter, up 8.8% year over year or approximately 11.2% on a constant-currency basis.

Segmental Revenues

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

Domain: The company generated revenues of \$352.3million (45% of total revenues) from this segment. The figure improved 12.1% from the year-ago quarter, driven by strong liquid domain aftermarket and renewals.

Hosting and Presence: This segment generated revenues of \$292.8 million (38% of revenues), increasing 8.4% on a year-over-year basis. The revenue growth can be primarily attributed to robust feature engagements, bookings and appointments within this segment. Further, the well-performing GoCentral remained a major positive.

Business Applications: Revenues from this segment came in at \$135.3 million (17% of revenues), increasing 21.3% year over year.

Operating Metrics

The company's customer base reached 19.3 million at the end of the fourth quarter. Notably, the figure was up 4.1% from the prior-year quarter. Growing website adoption in emerging markets aided the growth of its customer base. Average revenue per user was \$158 in the reported quarter, up 6.6% on a year-over-year basis, attributable to solid momentum across international markets served by the company.

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 fourth quarter, total bookings of \$833.6 million increased 13.8% year over year or 14.1% on a constant-currency basis.

Operating Results

Gross margin was 65.3%, down 160 basis points from the prior-year quarter.

Operating expenses (technology and development, marketing and advertising, & general and administrative) of \$302.5 million increased 7.7% year over year.

Balance Sheet & Cash Flow

At the end of the fourth quarter, total cash and cash equivalents, along with short-term investments were \$1.09 billion compared with \$990.2 million in third-quarter 2019. Accounts and other receivables were \$30.2 million compared with \$29 million in the third quarter.

Long-term debt was \$18.4 billion at the end of the fourth quarter.

Net cash provided by operating activities was \$162.2 million compared with \$200.2 million in the third quarter. Capital expenditure was \$16.5 million at the end of fourth quarter.

Additionally, adjusted free cash flow was \$177.7 million during the reported quarter.

Guidance

For full-year 2020, management expects revenues to be \$3.315 billion, indicating year-over-year growth of 11%.

Additionally, free cash flow in 2019 is projected at \$835 million, suggesting year-over-year growth of 14%.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	0.43%
EPS Surprise	-8.11%
Quarterly EPS	0.34
Annual EPS (TTM)	0.96

Recent News

On **Jan 14, 2020**, GoDaddy unveiled its new logo. The company calls the new logo the "GO".

On **Mar 13, 2019**, GoDaddy teamed up with International Cricket Council (ICC) to become the official sponsor and offer the global platform for ICC Men's Cricket World Cup, 2019.

Valuation

GoDaddy shares are up 22.7% in the six-month period but up 7.3% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 19.1% and the Zacks Computer & Technology sector is up 23.1% in the six-month period, respectively. Over the past year, the Zacks sub-industry is up 4.3% and the sector is up 29.4%

The S&P 500 index is up 17.1% in the six-month period and 20.6% in the past year.

The stock is currently trading at 3.98X forward 12-month sales, which compares to 1.1X for the Zacks sub-industry, 3.79X for the Zacks sector and 3.58X 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 3.03X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our \$82 price target reflects 4.2X 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	3.98	1.1	3.79	3.58
	5-Year High	5.07	2.13	3.79	3.58
	5-Year Low	2.06	0.77	2.3	2.54
	5-Year Median	3.03	1.02	3.02	3
EV/Sales TTM	Current	5.05	1.28	4.51	3.32
	5-Year High	6.49	3.85	4.51	3.32
	5-Year Low	2.81	0.97	2.56	2.16
	5-Year Median	4.44	0.38	3.47	2.79
EV/EBITDA TTM	Current	33.19	21.45	13.02	11.99
	5-Year High	73.27	77.61	13.02	12.86
	5-Year Low	25	15.27	7.67	8.48
	5-Year Median	33.28	23.83	10.53	10.67

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Top 30% (76 out of 255)



Top Peers

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

Industry Comparison Industry: Internet - Delivery Services				Industry Peers		
	GDDY Neutral	X Industry	S&P 500	FB Neutral	GOOGL Neutral	MSFT Outperform
VGM Score	A	-	-	B	B	D
Market Cap	13.37 B	751.16 M	24.50 B	620.83 B	1,044.29 B	1,424.08 B
# of Analysts	8	2.5	13	15	14	14
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	1.09%
Value Score	D	-	-	D	D	D
Cash/Price	0.07	0.10	0.04	0.09	0.11	0.10
EV/EBITDA	36.87	11.36	14.25	18.84	18.27	23.43
PEG Ratio	3.99	1.49	2.08	1.30	1.69	2.51
Price/Book (P/B)	19.75	3.18	3.28	6.15	5.19	12.93
Price/Cash Flow (P/CF)	39.46	10.20	13.68	25.64	21.88	29.47
P/E (F1)	67.80	23.76	19.12	23.39	27.74	33.20
Price/Sales (P/S)	4.48	0.72	2.67	8.78	6.45	10.61
Earnings Yield	1.48%	3.94%	5.23%	4.27%	3.61%	3.01%
Debt/Equity	3.78	0.03	0.70	0.09	0.07	0.64
Cash Flow (\$/share)	1.97	1.01	6.93	8.49	69.45	6.35
Growth Score	A	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	103.13%	9.70%	10.84%	53.35%	24.24%	17.68%
Proj. EPS Growth (F1/F0)	39.94%	29.81%	7.11%	44.79%	11.44%	18.72%
Curr. Cash Flow Growth	24.51%	-22.06%	7.81%	-8.33%	12.62%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	54.76%	30.73%	8.25%	38.21%	19.91%	11.99%
Current Ratio	0.75	1.14	1.24	4.40	3.37	2.80
Debt/Capital	79.06%	13.07%	42.37%	8.61%	6.83%	39.05%
Net Margin	4.58%	-1.64%	11.76%	26.15%	21.22%	33.02%
Return on Equity	20.18%	2.87%	16.86%	19.97%	18.66%	40.41%
Sales/Assets	0.47	0.83	0.55	0.58	0.62	0.48
Proj. Sales Growth (F1/F0)	10.76%	10.68%	4.05%	21.23%	17.81%	13.11%
Momentum Score	A	-	-	B	A	D
Daily Price Chg	-0.97%	-0.12%	-0.38%	1.69%	0.05%	1.01%
1 Week Price Chg	13.36%	-0.17%	1.65%	0.87%	2.68%	0.79%
4 Week Price Chg	7.98%	-1.60%	0.39%	-1.64%	2.51%	12.45%
12 Week Price Chg	13.43%	7.07%	4.84%	9.46%	15.72%	23.15%
52 Week Price Chg	6.81%	-9.41%	14.99%	34.20%	34.88%	73.09%
20 Day Average Volume	1,303,275	195,754	1,996,897	16,959,684	1,719,709	31,897,204
(F1) EPS Est 1 week change	2.57%	0.00%	0.00%	0.32%	0.51%	0.00%
(F1) EPS Est 4 week change	2.57%	0.00%	-0.01%	1.73%	0.06%	5.25%
(F1) EPS Est 12 week change	3.26%	3.26%	-0.21%	2.37%	0.19%	5.36%
(Q1) EPS Est Mthly Chg	12.13%	0.00%	-0.26%	-1.08%	-0.75%	7.07%

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	D
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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