Jan 24, 2020

GoDaddy Inc. (GDDY)

$71.83 (As of 01/23/20)

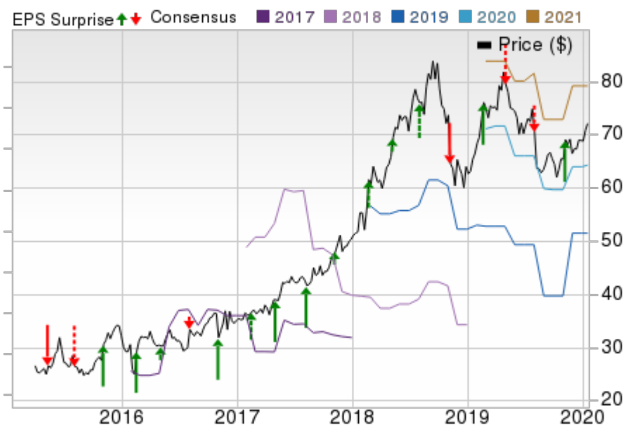
Price Target (6-12 Months): **$83.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 01/17/20) Prior Recommendation: Neutral	**Outperform**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**1-Strong Buy**
	Zacks Style Scores:	VGM:C
	Value: D | Growth: A | Momentum: D	

Summary

GoDaddy continues to ride on personalized products and services, and the technology platform. Growing adoption of its domain products continues to drive its top-line growth. Further, acquisitions, international expansion, robust feature engagements and strength in GoCentral are driving growth of Hosting and Presence segment. Moreover, increasing subscription of GoCentral remains a major positive. Additionally, growing momentum of Open-Xchange in emerging markets are likely to continue accelerating revenues within Business Applications unit. Notably, the stock has underperformed the industry it belongs to in the past year. However, the company's heavy debt burden and rising expenses remain concerns.

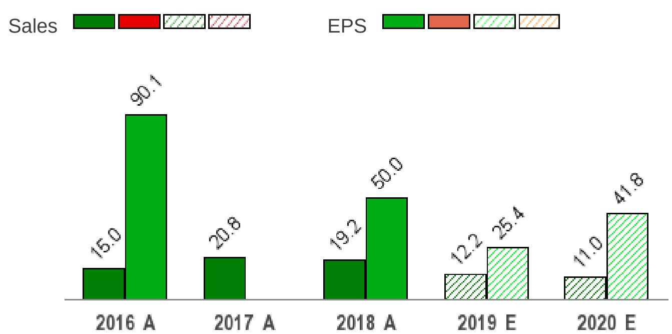
Price, Consensus & Surprise



Data Overview

52 Week High-Low	**$82.30 - $59.93**
20 Day Average Volume (sh)	**1,142,979**
Market Cap	**$12.4 B**
YTD Price Change	**5.8%**
Beta	**0.67**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Delivery Services**
Zacks Industry Rank	**Top 20% (50 out of 255)**
Last EPS Surprise	**90.9%**
Last Sales Surprise	**0.0%**
EPS F1 Est- 4 week change	**0.7%**
Expected Report Date	**02/13/2020**
Earnings ESP	**0.0%**
P/E TTM	**79.8**
P/E F1	**64.1**
PEG F1	**3.8**
P/S TTM	**4.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	789 E	820 E	841 E	859 E	3,313 E
2019	710 A	737 A	761 A	777 E	2,985 E
2018	633 A	652 A	680 A	696 A	2,660 A

EPS Estimates

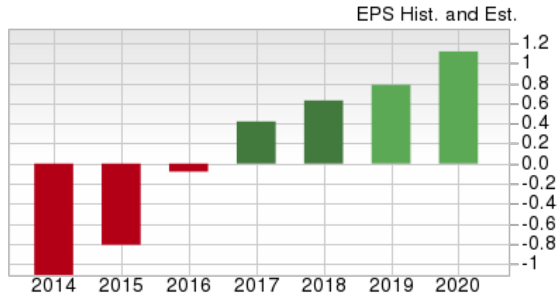
	Q1	Q2	Q3	Q4	Annual*
2020	$0.17 E	$0.22 E	$0.35 E	$0.36 E	$1.12 E
2019	$0.07 A	$0.13 A	$0.42 A	$0.37 E	$0.79 E
2018	$0.02 A	$0.11 A	$0.08 A	$0.28 A	$0.63 A

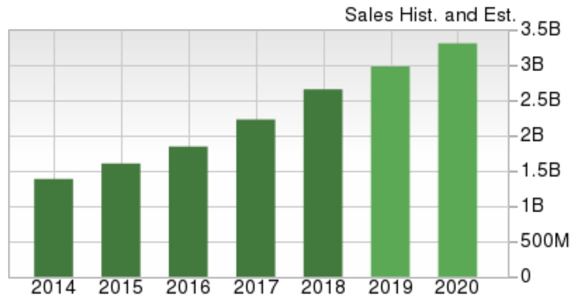
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/23/2020. The reports text is as of 01/24/2020.

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 $2.7 billion in 2018, up 19.2% year over year. The company generates revenues from three segments — Domains (46% of revenues), Hosting and Presence Offerings (38%) and Business Applications (16%).

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 18.5 million customers as of December 2018, an increase of 25.6% 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 15% from 2018.

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

▲ **Increasing international presence** keeps the growth prospects of GoDaddy high. In 2018, 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.

Risks

- 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.

Last Earnings Report

GoDaddy Q3 Earnings Beat, Revenues Match Estimates

Quarter Ending	09/2019
Report Date	Nov 06, 2019
Sales Surprise	0.00%
EPS Surprise	90.91%
Quarterly EPS	0.42
Annual EPS (TTM)	0.90

GoDaddy Inc. reported third-quarter 2019 adjusted earnings of 42 cents per share, surpassing the Zacks Consensus Estimate of 22 cents. Also, the bottom line was up from 8 cents in the year-ago quarter.

The company generated revenues of $760.5 million, up 11.9% year over year or 13.3% on a constant-currency basis. The reported figure was in line with the Zacks Consensus Estimate. The revenue growth was driven by strong performance of its product segments.

Segmental Revenues

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

Domain: The company generated revenues of $345.3 million (45.4% of total revenues) from this segment. The figure improved 11.6% from the year-ago quarter driven by strong liquid domain aftermarket and renewals.

Hosting and Presence: This segment generated revenues of $285 million (37.5% of revenues), increasing 8.3% on a year-over-year basis. The revenue growth can be primarily attributed to robust feature engagements, bookings and appointments within this segment. Further, well-performing GoCentral remained a major positive.

Business Applications: Revenues from this segment came in at $130.2 million (17.1% of revenues), increasing 21.9% year over year.

Other Details

The company's customer base reached 19.1 million at the end of the third quarter. Notably, the figure was up 4.6% from the prior-year quarter. Growing website adoption in emerging markets aided the growth of its customer base. Average revenue per user was $155 in the reported quarter, up 7.1% on a year-over-year basis, attributable to solid momentum across international markets served by the company.

International revenues were $254.3 million in the third quarter, up 7.8% year over year or approximately 11.7% on a constant-currency basis.

Booking

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 third quarter, total bookings of $851 million increased 14.7% year over year or 15.7% on a constant-currency basis.

Operating Results

Gross margin was 65.2%, down 140 basis points from the prior-year quarter.

Operating expenses (technology and development, marketing and advertising, & general and administrative) of $268.2 million decreased 1.4% year over year.

Balance Sheet & Cash Flow

At the end of the third quarter, total cash and cash equivalents, along with short-term investments were $990.2 million compared with $1.2 billion in second-quarter 2019. Accounts and other receivables were $29 million compared with $24.8 million in the second quarter.

Total debt was $2.4 billion and net debt was $1.4 billion at the end of the third quarter.

Net cash provided by operating activities was $200.2 million compared with $161.3 million in the second quarter.

Additionally, adjusted free cash flow was $191.3 million during the reported quarter.

Guidance

For full-year 2019, management expects revenues within $2.98-$2.99 billion, indicating year-over-year growth of approximately 12%.

Additionally, free cash flow in 2019 is projected between $730 million and $740 million, suggesting year-over-year growth of 18-19%.

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 down 3% in the six-month period but up 8.4% over the trailing 12-month period. Stocks in the Zacks sub-industry are up 5% and the Zacks Computer & Technology sector is up 16% in the six-month period, respectively. Over the past year, the Zacks sub-industry is up 6% and the sector is up 31.9%

The S&P 500 index is up 11.4% in the six-month period and 23.9% in the past year.

The stock is currently trading at 3.72X forward 12-month sales, which compares to 1.11X for the Zacks sub-industry, 3.75X for the Zacks sector and 3.56X 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 3.01X. Our Neutral recommendation indicates that the stock will perform inline with the market. Our $83 price target reflects 4.3X 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	3.72	1.11	3.75	3.56
	5-Year High	5.07	2.13	3.75	3.56
	5-Year Low	2.06	0.77	2.3	2.54
	5-Year Median	3.01	1.03	3.01	3
EV/Sales TTM	Current	4.66	1.21	4.19	3.23
	5-Year High	6.49	3.69	4.2	3.3
	5-Year Low	2.81	0.94	2.56	2.16
	5-Year Median	4.42	1.34	3.44	2.8
EV/EBITDA TTM	Current	31.24	19.1	11.64	11.99
	5-Year High	62.13	67.87	12.58	12.86
	5-Year Low	23.73	15.01	7.67	8.48
	5-Year Median	33.23	24.26	10.37	10.67

As of 01/23/2020

Industry Analysis **Zacks Industry Rank:** Top 20% (50 out of 255)

Top Peers

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

Industry Comparison Industry: Internet - Delivery Services

Industry Peers

	GDDY Outperform	X Industry	S&P 500	FB Neutral	GOOGL Neutral	MSFT Neutral
VGM Score	C	-	-	A	C	C
Market Cap	12.37 B	745.84 M	24.46 B	626.70 B	1,023.97 B	1,271.87 B
# of Analysts	8	2	13	12	13	14
Dividend Yield	0.00%	0.00%	1.75%	0.00%	0.00%	1.22%
Value Score	D	-	-	C	C	D
Cash/Price	0.08	0.09	0.04	0.08	0.12	0.11
EV/EBITDA	34.40	11.33	14.11	19.64	20.86	20.81
PEG Ratio	3.77	2.92	2.04	1.16	1.62	2.61
Price/Book (P/B)	18.27	3.22	3.40	6.67	5.26	11.99
Price/Cash Flow (P/CF)	36.51	10.22	13.66	23.73	24.33	26.24
P/E (F1)	64.13	23.80	19.10	24.00	27.09	31.12
Price/Sales (P/S)	4.26	0.71	2.67	9.42	6.60	9.80
Earnings Yield	1.56%	3.79%	5.23%	4.17%	3.69%	3.21%
Debt/Equity	3.78	0.03	0.72	0.09	0.07	0.69
Cash Flow ($/share)	1.97	1.01	6.94	9.26	61.03	6.35
Growth Score	A	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	103.74%	21.40%	10.60%	58.03%	23.64%	16.25%
Proj. EPS Growth (F1/F0)	42.30%	29.81%	7.59%	43.39%	17.66%	12.80%
Curr. Cash Flow Growth	24.51%	2.83%	13.90%	24.75%	44.22%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	54.76%	43.04%	9.00%	60.23%	21.13%	11.99%
Current Ratio	0.75	1.14	1.22	4.66	3.78	2.85
Debt/Capital	79.06%	13.34%	42.99%	8.16%	6.59%	40.81%
Net Margin	4.10%	-0.77%	11.35%	27.08%	21.04%	31.66%
Return on Equity	19.05%	3.48%	17.10%	20.39%	18.34%	39.14%
Sales/Assets	0.46	0.83	0.55	0.59	0.62	0.48
Proj. Sales Growth (F1/F0)	11.00%	11.00%	4.03%	21.66%	18.10%	11.33%
Momentum Score	D	-	-	A	B	B
Daily Price Chg	-0.18%	-0.09%	0.26%	-0.70%	0.04%	0.62%
1 Week Price Chg	1.87%	1.15%	2.29%	1.87%	3.54%	3.57%
4 Week Price Chg	4.12%	2.53%	2.24%	5.76%	8.97%	5.07%
12 Week Price Chg	10.46%	-0.74%	7.79%	14.67%	17.94%	16.29%
52 Week Price Chg	10.61%	-11.69%	21.61%	50.70%	36.96%	56.99%
20 Day Average Volume	1,142,979	211,127	1,536,379	11,249,817	1,376,082	20,381,580
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.04%	0.12%	0.00%
(F1) EPS Est 4 week change	0.67%	0.67%	0.00%	0.92%	0.24%	0.12%
(F1) EPS Est 12 week change	12.02%	-11.80%	-0.23%	-4.50%	-2.27%	0.43%
(Q1) EPS Est Mthly Chg	-0.29%	0.00%	0.00%	2.81%	0.07%	0.22%

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	D
Growth Score	A
Momentum Score	D
VGM Score	C

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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock.The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment.This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time.ZIR is not a broker-dealer.ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients.Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.