

GoDaddy

CMIYC

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11/04/24



Executive Summary



Fundamental Strategy

Identify undervalued companies with strong growth potential, focusing on P/E ratios, zero dividend paid out as screening criteria



Intrinsic Value

Valuation indicates current stock price of \$163.50/share is undervalued, with our projections closer to \$200/share.



Recommendation

Allocate \$5,000 to purchase 31 shares of Go-Daddy (GDDY).



Strategy Rationale

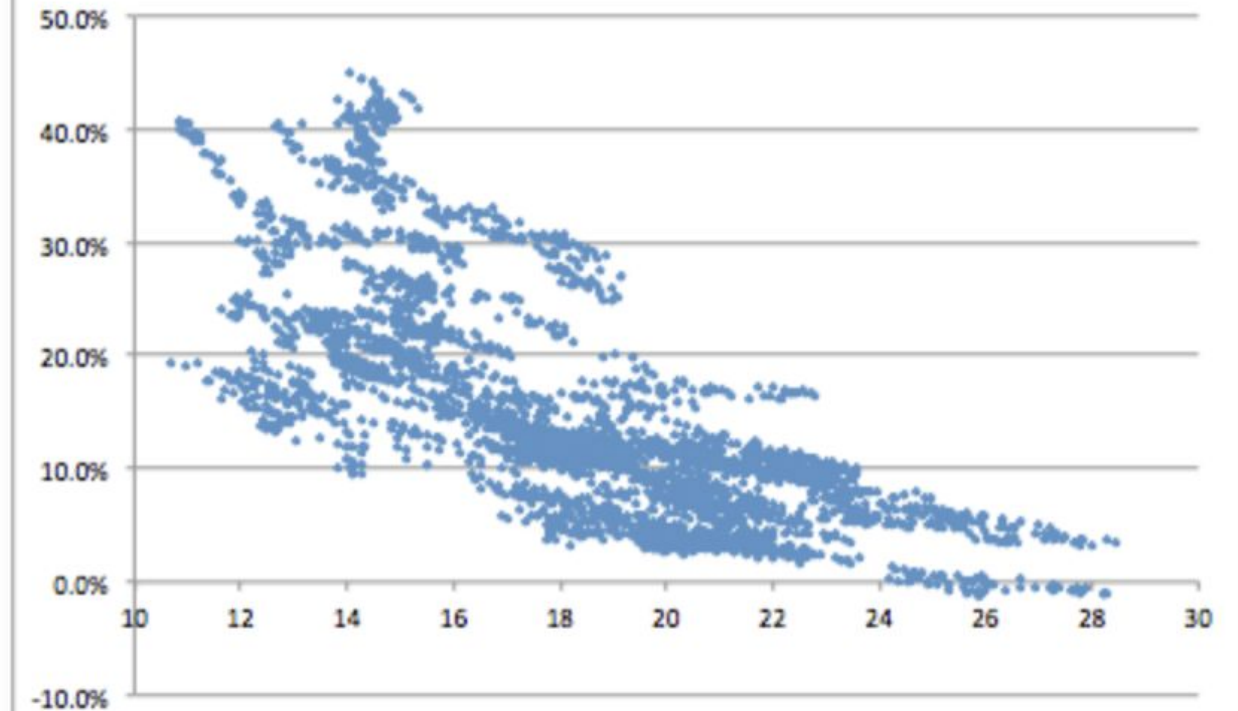
P/E Ratio

- A lower P/E ratio can suggest a "bargain", that a stock is undervalued relative to its earnings

Dividends

- **Value stocks pay dividends** because they are established companies with stable cash flows and limited high-growth reinvestment opportunities
- **Growth stocks reinvest profits** into new products, ideas, or services to drive innovation and long-term growth, often providing higher returns for shareholders than dividends would

5-Year CAGR Vs PE Ratio Scatter Plot



*source: stableinvestor.com



Stock Selection – GoDaddy

Screening Criteria

Parameter	Description	Stock Universe
Market Cap*	> \$10B	822 stocks
P/E Ratio	< 15	137 stocks
Earnings Growth	+ YoY earnings growth over last 20qtr	50 stocks
Dividends	Does not payout any dividends	4 stocks



Stock Selection – GoDaddy

Output Stock Profile

Company	Ticker	Sector	Stock Price (11/01)	Revenue ('23)	Market Cap	P/E Ratio (TTM)	PE Ratio (Forward)
GoDaddy	GDDY	Tech	\$163.50	\$4.3B	\$23.5B	12.92	25.84
Super Micro Co.	SMCI	Tech	\$26.05	\$7.1B	\$15.3B	14.61	9.14
Liberty Broadband Corp	LBRDA	Telecomm	\$89.65	\$981.2M	\$12.8B	14.56	N/A
Tenet Healthcare	THC	Healthcare	\$156.13	\$20.6B	\$14.9B	9.68	13.83



Company Overview - GoDaddy

History

Founded in 1997 and headquartered in Tempe, Arizona, GoDaddy started as a domain registrar and expanded over the years into a leading provider of web hosting, website building, and online business services.

Business Model

Provides cloud-based solutions for small businesses and individuals to build and manage their online presence, offering website creation, e-commerce, marketing tools, domain services, hosting, and online security.

Key Stats

- Oct.30th, 2024 reported EPS surpassed analyst expectations by 6.4%
 - AI-conversational bots in 20 countries, Q3 saved over 16M incremental contact minutes
 - The stock has increased by 123.14% over the past 52 weeks
 - Recently was included into the SP500, as of June 2024
-



Business Model – Product

GoDaddy Website Builder

Let AI help create your free website in minutes.

Answer a few questions and get a customizable site up and running fast.

Start for Free

No credit card required.*

Contact Us

Features

- ✓ Domain Names
- ✓ Web Hosting
- ✓ Website Security
- ✓ Website Builder
- ✓ Business Solutions
- ✓ Marketing Solutions
- ✓ Design Services
- ✓ Email & Productivity



Business Model – Revenue Streams

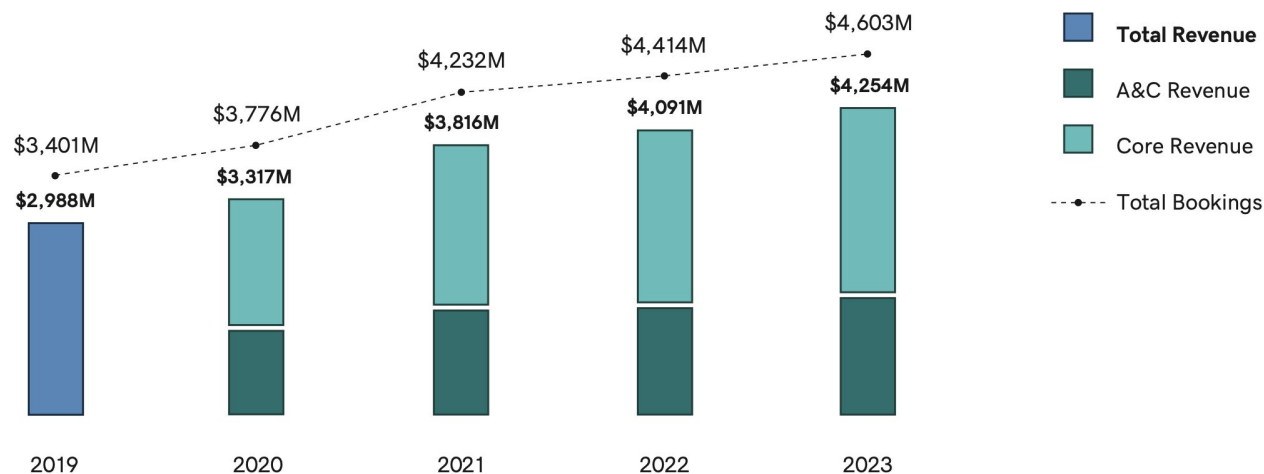
Core Platform (66% of revenue)

- Domain registration
- Web hosting & security
- Email hosting
 - 4% revenue growth Q3
 - 33% EBITDA margins

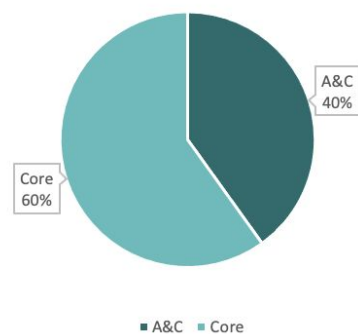
App. & Commerce (34% of revenue)

- Website + Marketing
- Invoicing & payment processing
- E-commerce management
 - 16% revenue growth Q3
 - 46% EBITDA margin

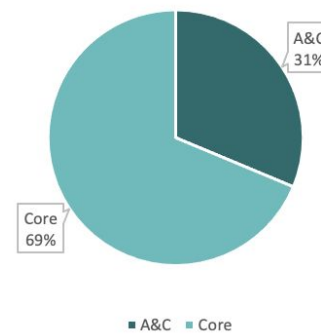
Revenue & Bookings



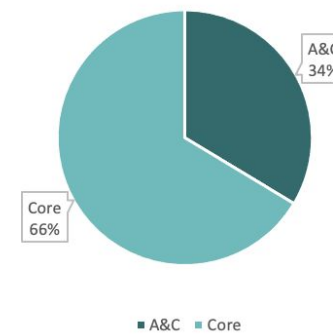
% of revenue ('21)



% of revenue ('22)



% of revenue ('23)



Business Model – Customer

Independents

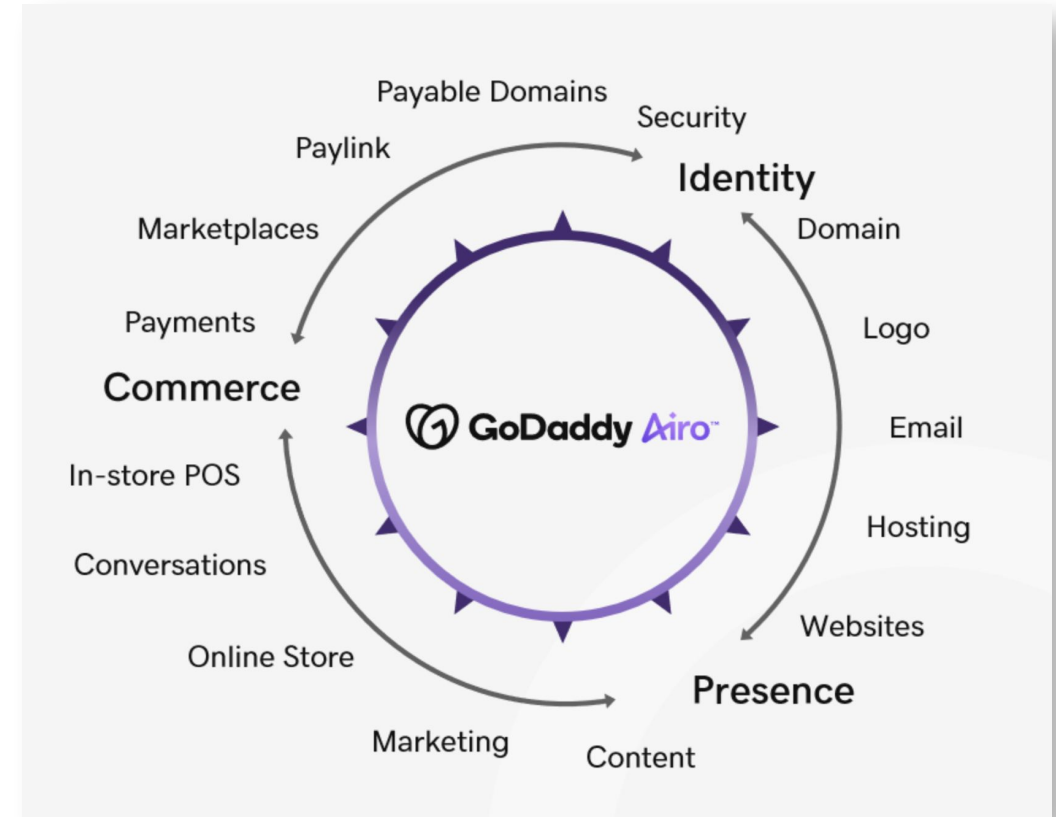
- Micro-businesses (<5 employees) with limited tech expertise
- *Needs:* Online identity, resources to grow sales, manage payments

Web Professionals

- Designers, developers, agencies that manage websites for clients
- *Needs:* Tools to save time and streamline client management

Other

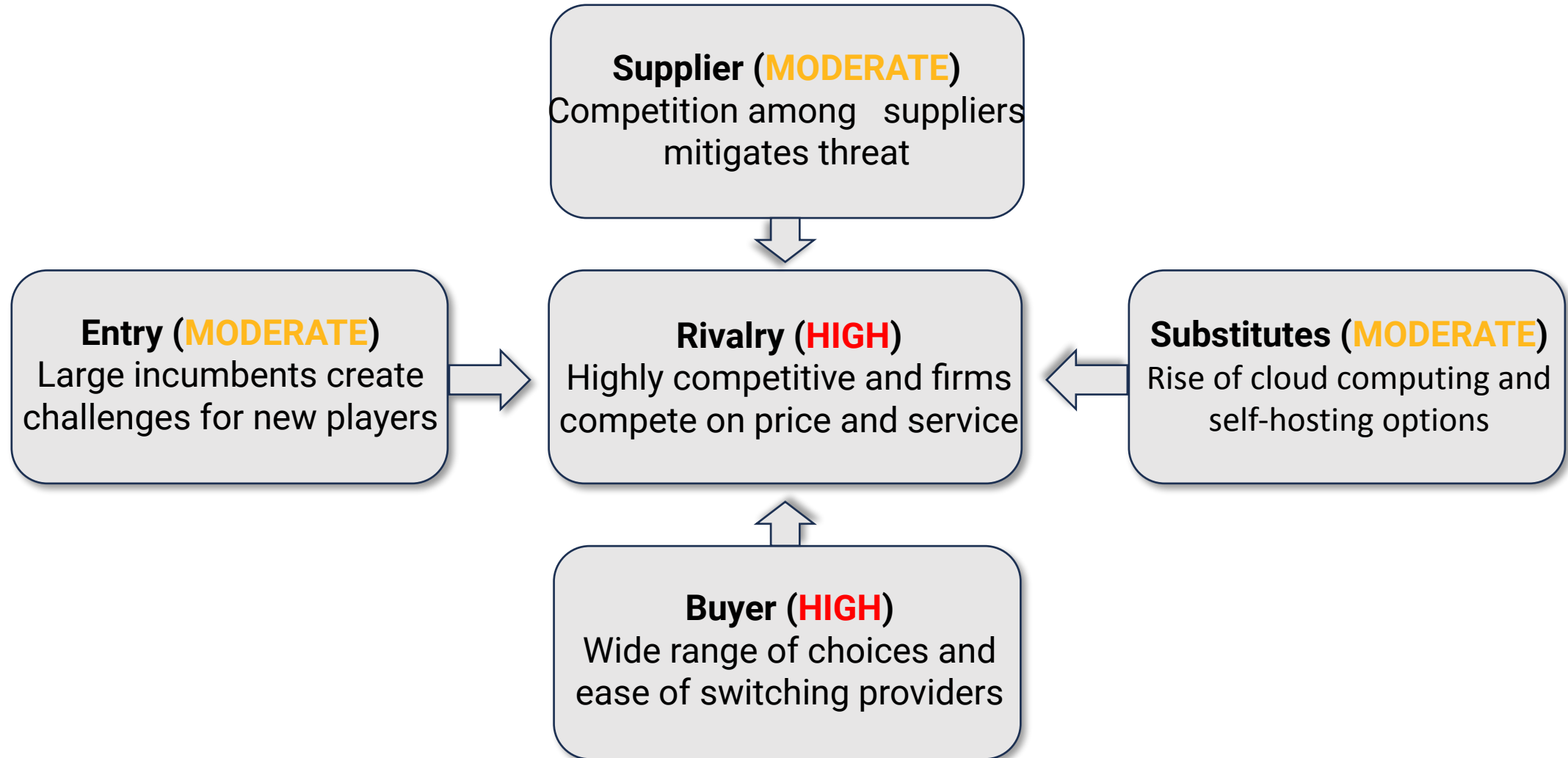
- **Enterprise:** Customized solutions, enhanced security, dedicated support.
- **Investors:** Managing portfolios for resale



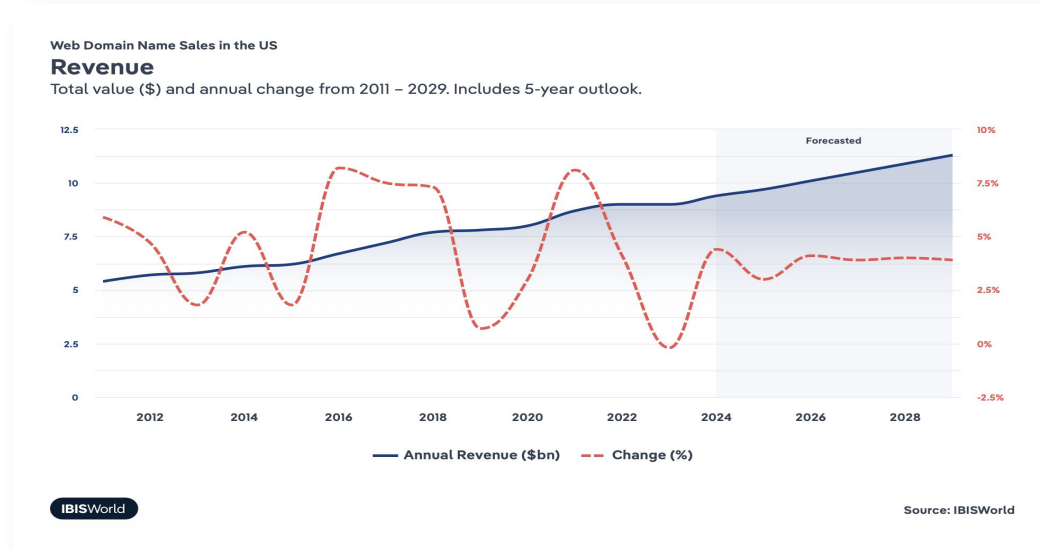
21M global customers with an 85% average retention rate; 93% retention for customers of 3+ years.



Porters 5 Forces – Web Hosting

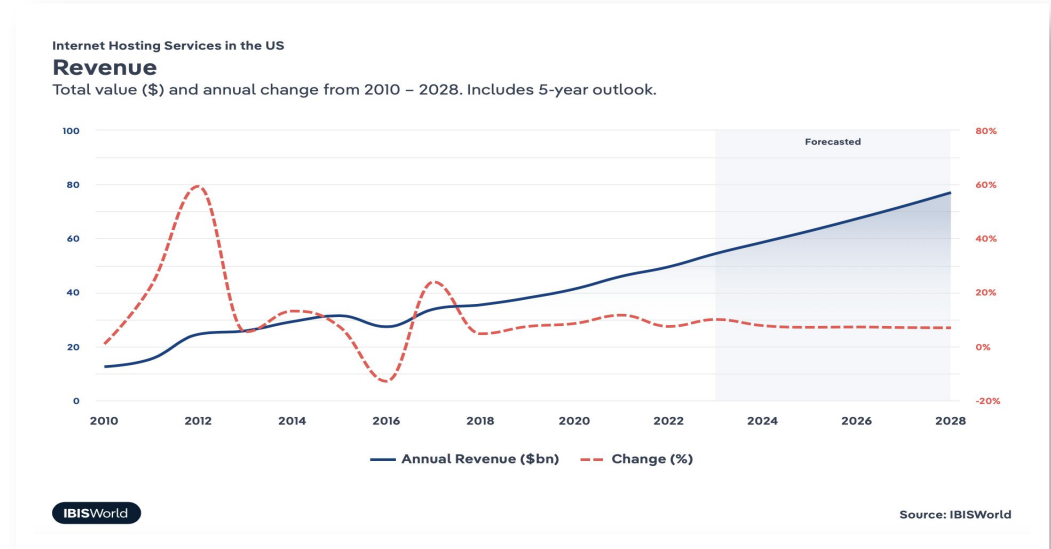


Industry Analysis – Growth Trends



Web Domain Name Sales (Primary)

- **Market Size:** \$9.4B
- **CAGR (5yr):** 4.6%
- **Growth Drivers:** Increasing digitization of businesses, the proliferation of internet-connected devices, and the rising importance of online branding.

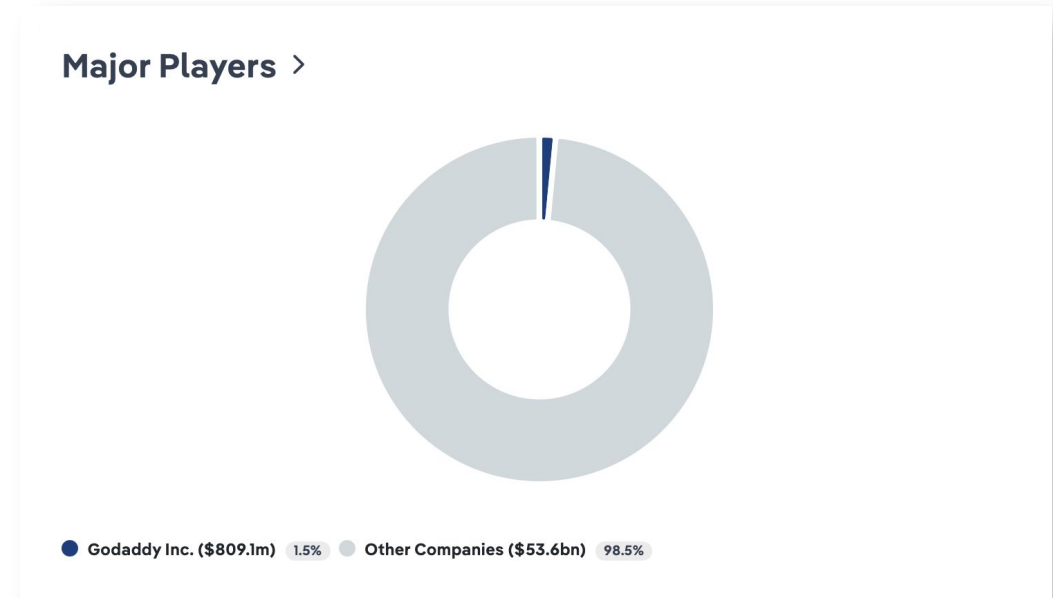
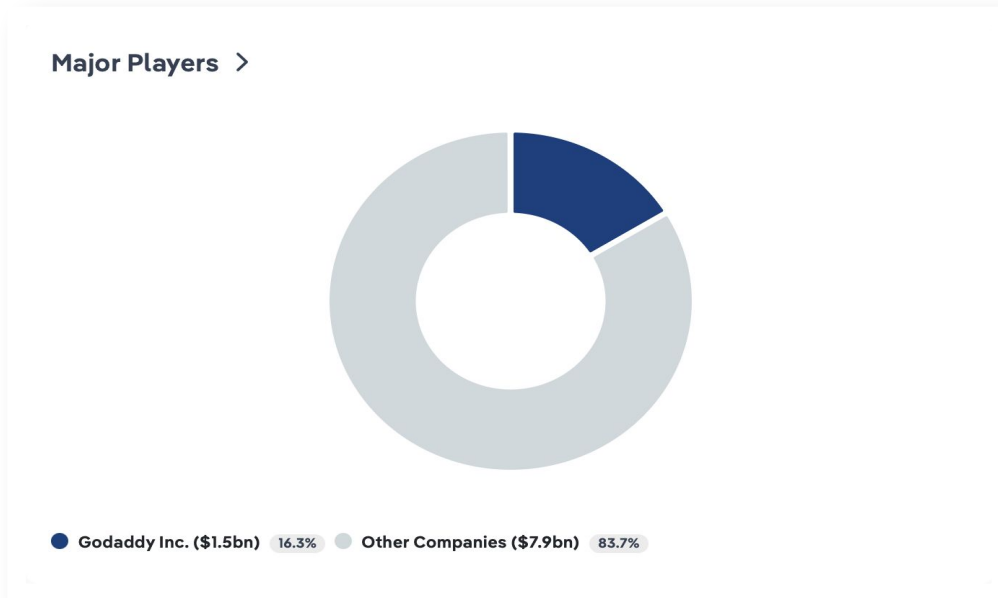


Internet Hosting Services (Secondary)

- **U.S. Market Size:** \$54.4B
- **CAGR (5yr):** 16.9%
- **Growth Drivers:** Expansion of cloud-based services, a rise in e-commerce platforms needing reliable hosting, and the increased focus on website performance and security.



Industry Analysis – Market Share



- **16.3% market share in Web Domain**
- Revenue generated from industry: **\$1.5B**
- GoDaddy manages ~85M domains, representing about 25% of global domain names.

- **1.5% market share in the Internet Hosting Services market.**
- Revenue generated from industry: **\$809.1M**



SWOT

Strengths

Market Leadership: 24% of global domain names
User Friendly Diverse Products: Website building, hosting, security products
Product Innovation: GoDaddy Airo
Financial Performance: NI increased 45% YoY

Opportunities

International Expansion: 48% of GDDY customers are in global markets
Technological Advancement: AI & ML to create new revenue streams
Small Business Boom: +400k applications per month in 2024, 50% increase from 2019

Weaknesses

Dependance on Small Businesses: less stability and profit, & varying needs.
High Debt-to-Equity Ratio: Signifying high dependency on dept for financing

Threats

High Competition: Increasing competitors with undifferentiated products
Regulatory Changes: Domestically & Internationally- intellectual property, currency exchange
Cybersecurity Risks: Security breaches and services interruptions



Competitive Advantage – Domains

Segment: Domain Registration (Core Platform)

Description: GoDaddy provides domain registration services and manages approximately 85 million domains globally, holding a 24% global market share. Beyond registration, GDDY has a strong presence in the domain aftermarket-secondary market where registered domains are bought and sold.

Competitors: Newfold Digital, Namecheap, Tucows, Dynadot, GMO, Cloudflare, Let's Encrypt, SEDO, Comodo, Hostinger, Identity Digital.

Competitive Advantage & Differentiation:

- **Scale-Based Cost Leverage:** As the largest domain registrar, GoDaddy can achieve cost efficiencies that smaller operators can't match, allowing for competitive pricing.
- **Global Brand Recognition:** High brand awareness from marketing campaigns (e.g., Super Bowl ads) aids in customer acquisition.
- **Switching Costs:** Established processes and ease of use create friction for customers to move to another registrar.



Competitive Advantage – Web Hosting

Segment: Website Building & Hosting (A&C Platform)

Description: GoDaddy offers user-friendly website creation tools, managed WordPress hosting, and content management solutions, integrated with marketing and customer management features.

Competitors: Wix, Squarespace, Shopify, Automattic, Ionos, Google, Amazon, Microsoft, Alibaba, Tencent, SiteGround, WP Engine.

Competitive Advantage & Differentiation:

- **Targeted Segment:** Simplifies complex tasks for non-technical users, leveraging AI for easy website creation and maintenance.
- **Airo Launch:** Managed WordPress and GoDaddy Airo use automation and generative AI to streamline content and site management,
- **Integrated Marketing Solutions:** Combines website building with marketing and customer engagement tools into a single platform.
- **Pricing Advantage:** Offers rates 20% lower than those of major competitors, helping to attract price-sensitive businesses.



Performance History – Competitors



Competitors Comparison (2023)

Ratio Category	Key Ratios	GoDaddy	Shopify	Squarespace	Wix
Profitability	ROIC	44.67	-10.22	-3.67	-2.36
Profitability	Operating Margin	12.87	-20.08	8.27	-1.56
Liquidity	Total Debt/Equity	63.27	0.13	N/A	N/A
Liquidity	Current Ratio	0.47	6.99	0.68	1.36
Working Capital	Days Sales Outstanding	5.86	39.76	6.43	11.63

Key Stats	GoDaddy	Shopify	Squarespace	Wix
Revenue	\$ 4,254M	\$ 7,060M	\$ 1,012M	\$ 1,561M
P/E	12.89	361.7	N/A	197.2
EPS	9.08	0.1	-0.05	0.57



Performance History – YoY vs SPY



Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	Avg
GDDY	60.3%	9.1%	25.3%	30.3%	3.5%	22.1%	2.3%	-11.9%	42.0%	20.3%
SPY	2.3%	12.0%	16.8%	-4.5%	31.2%	18.3%	28.8%	-18.2%	26.3%	12.5%



Performance Metrics – vs SPY



Period	Ticker	Return (C)	α^*	β^*	σ^*	Max DD*	Sharpe*	Treynor*	Idio. Risk*	Info Ratio*
1yr	GDDY	121.9%	53.7%	1.12	22.3%	-10.6%	5.25	1.04	3.7%	2.85
1yr	SPY	31.4%	-	1	16.3%	-8.3%	1.67	0.27	-	-
10yr	GDDY	716.8%	8.3%	0.98	24.3%	-21.8%	0.84	0.17	2.7%	0.55
10yr	SPY	229.3%	-	1	15.2%	-38.8%	0.61	0.09	-	-



Valuation Assumptions

Valuation Date:	11/01/2024	N Forecasted Years:	5
Levered DCF Method:	FCFF Growth	FCFF Growth Rate:	12.5%
		Terminal Growth Rate:	3%
		WACC:	10%
Unlevered DCF Method:	FCFE Growth	FCFE Growth Rate:	12.5%
		Terminal Growth Rate	3%
		Cost of Equity:	10.5%
EV/Sales Multiple:	6.0x	N Comparable Peers:	3
P/E Multiple	25.7x	N Comparable Peers:	15



Base Case Projections - DCF

Year	1	2	3	4	5	Terminal
DCFE	\$ 993.33	\$ 1,007.66	\$ 1,022.19	\$ 1,036.94	\$ 1,051.90	\$ 22,336.08
DCFF	\$ 725.32	\$ 741.80	\$ 758.67	\$ 775.90	\$ 793.54	\$ 18,257.16

Unlevered Projected Value	\$ 27,448.11
Levered Projected Value	\$ 22,052.39
Shares Outstanding (M)	141.5
Unlevered Price/Share	\$ 193.98
Levered Price/Share	\$ 155.85



Scenario Analysis – DCF

DCF Factors	Downside	Base	Upside
FCFE Growth	9.00%	12.50%	14.50%
FCFF Growth	9.00%	12.50%	14.50%
Cost of Equity	11.90%	10.90%	9.90%
WACC	10.50%	10.00%	9.00%
Terminal Growth Rate	2.00%	3.00%	4.00%
Unlevered Price/Share	\$ 139.55	\$ 193.98	\$ 270.02
Levered Price/Share	\$ 109.42	\$ 155.35	\$ 226.39
<i>Scenarios Weighted</i>	30%	50%	20%

Unlevered Price/Share	\$ 192.86
Levered Price/Share	\$ 156.03



Comps Analysis – EV/Sales

Comparisons	Market Data			Financial Data				Valuation			
Company Name	Price	Market Cap	EV	Sales	EBITDA	EBIT	Earnings	EV/Sales	EV/EBITDA	EV/EBIT	P/E
GoDaddy	\$ 163.50	\$ 22,934	\$ 26,080	\$ 4,480	\$ 1,020	\$ 887	\$ 1,852	5.82	25.57	29.40	12.9
Shopify	\$ 78.99	\$102,089	\$ 98,220	\$ 7,764	\$ 857	\$ 813	\$ 1,273	12.65	114.61	120.81	121.19
SquareSpace	\$ 44	\$ 6,448	\$ 6,755	\$ 1,106	\$ 125	\$ 52	\$ (5)	6.11	54.17	130.40	-
Wix	\$ 163.94	\$ 8,987	\$ 9,175	\$ 1,653	\$ 71	\$ 41	\$ 73	5.55	129.05	222.70	135.12

Average EV/Sales Valuation	\$ 213.70
GoDaddy EV/Sales Valuation	\$ 33,752.26
	\$ 26,725.91
<i>EV/EBITDA Valuation</i>	\$ 82,472.28
	\$ 86,083.56
<i>EV/EBIT Valuation</i>	\$ 111,609.51
	\$ 111,410.39
<i>P/E Ratio Valuation</i>	\$ 165,963.29
Shares Outstanding	141.5M

Average	7.53	80.85	125.83	89.60
Median	5.96	84.39	125.62	121.19



Comps Analysis – P/E Ratio

Company	Ticker	P/E Ratio
GODADDY INC - CLASS A	GDDY US Equity	12.9
PAYPAL HOLDINGS INC	PYPL US Equity	16.9
SHOPIFY INC - CLASS A	SHOP CN Equity	121.2
WIX.COM LTD	WIX US Equity	135.1
BLOCK INC	SQ US Equity	38.6
IONOS GROUP SE	IOS GR Equity	25.6
ALPHABET INC-CL A	GOOGL US Equity	22.2
TENCENT HOLDINGS LTD	700 HK Equity	23.6
AMAZON.COM INC	AMZN US Equity	41.0
UNITED INTERNET AG-REG SHARE	UTDI GR Equity	119.9
BOOKING HOLDINGS INC	BKNG US Equity	30.5
MICROSOFT CORP	MSFT US Equity	33.6
META PLATFORMS INC-CLASS A	META US Equity	25.7
ALIBABA GROUP HOLDING-SP ADR	BABA US Equity	13.2
YELP INC	YELP US Equity	16.0
	Average	45.0
	Median	25.7

GoDaddy P/E Valuation	\$ 47,601.5M
Shares Outstanding	141.5M
P/E Comps Price Per Share	\$ 336.41



Valuation Model Outcomes

Valuation Method	Estimated Value Per Share	Model Weights
Levered DCF	\$ 156.03	20%
Unlevered DCF	\$ 192.86	60%
Comparable EV/Sale	\$ 213.70	16%
Comparable PE/Ratio	\$ 336.41	4%
Target Price	\$ 194.57	100%

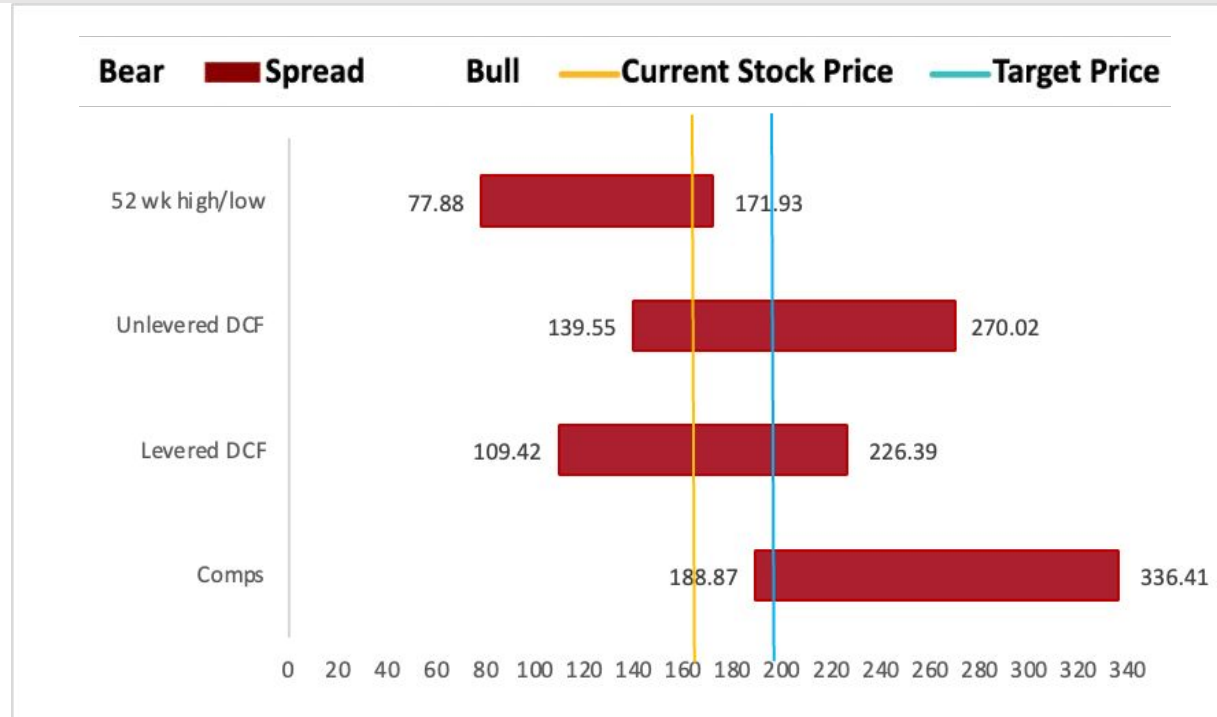


Valuation Target Price

Current Stock Price: \$ 163.50

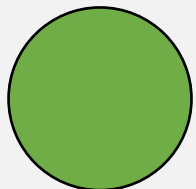
Target Price: \$ 194.57

Estimated Upside: 20.62%

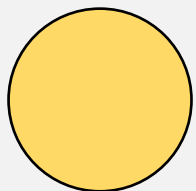


Recommendation

Strategy Merits



- a) Earnings growth
- b) Performance relative to competitors and benchmark



- a) Higher standard deviation than SPY
- b) Similar beta to market
- c) Debt/equity improving but still higher than average
- d) Unconcentrated, competitive industry

Action Plan

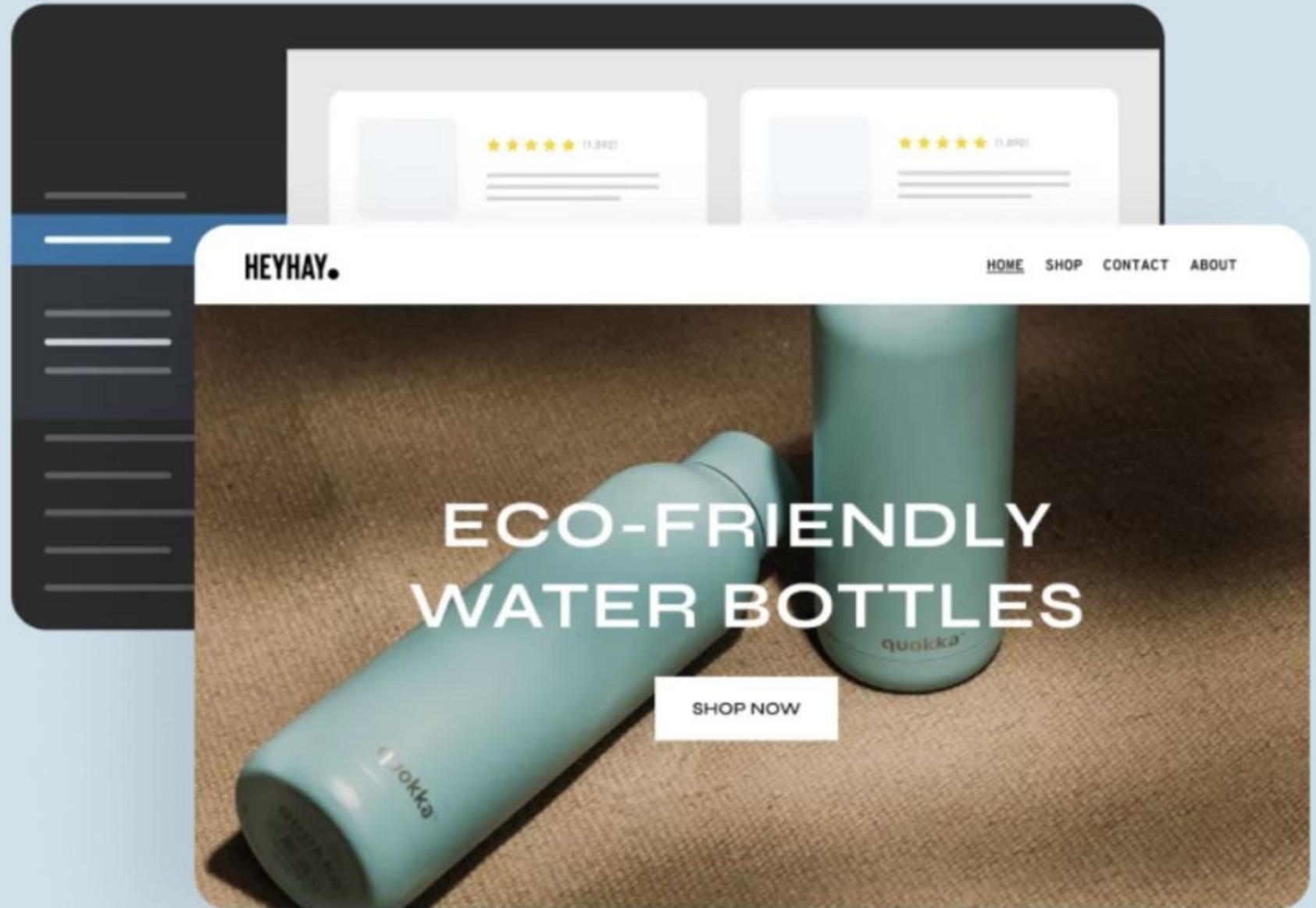


Recommendation: Buy

Allocate \$5,000 to purchase 31 shares (\$163.50/share) of GDDY

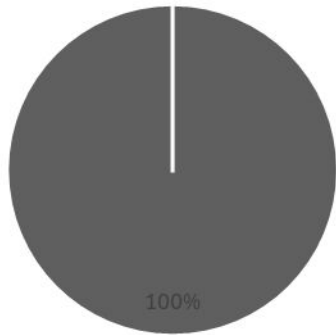


Appendix



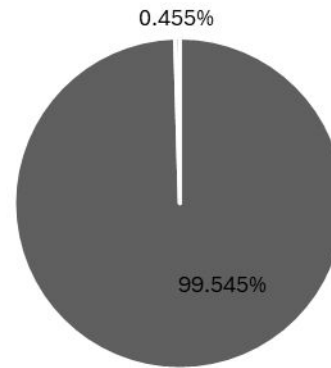
Effect on the Portfolio

Current Portfolio



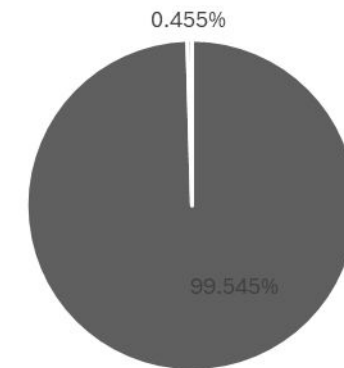
■ Cash

Portfolio By Sector



■ Cash ■ Technology

Portfolio By Security

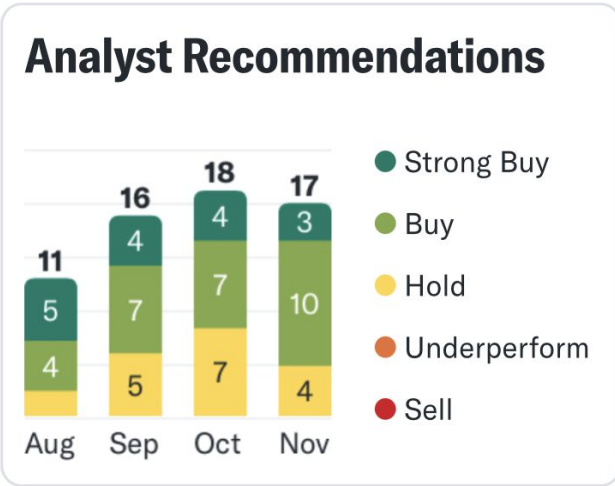
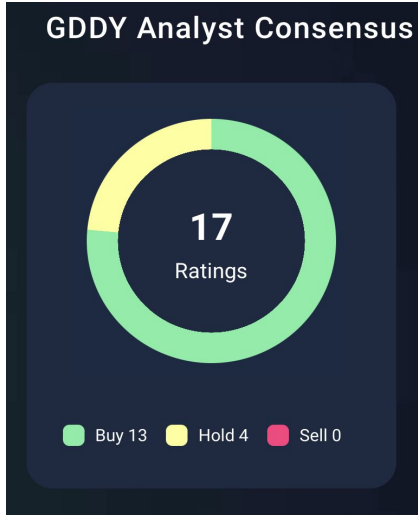


■ Cash ■ GoDaddy

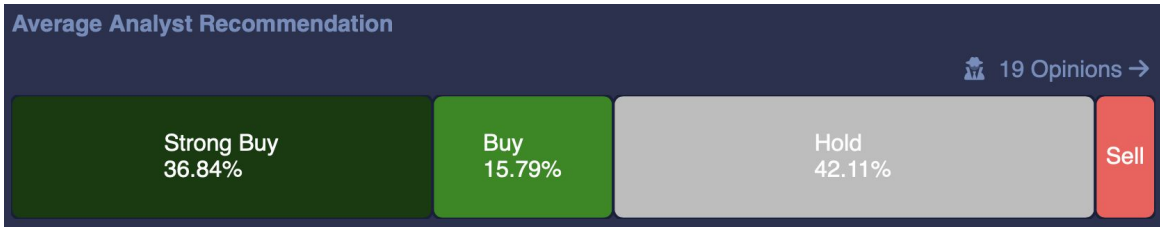
<u>Portfolio</u>	Exp. Return	St. Dev*	Beta*	Sharpe Ratio*	Idio. Risk*	Info. Ratio*
Existing	—	—	—	—	—	—
Adjusted	20.3%	24.3%	0.98	—	—	—



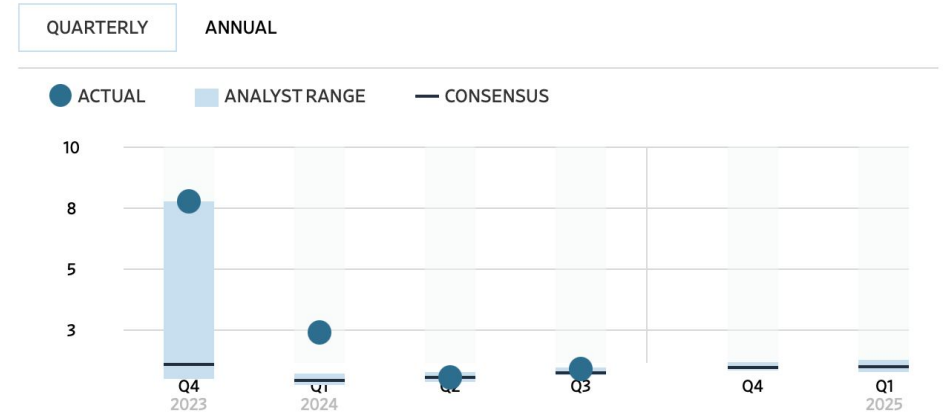
Analyst Sentiment



Analyst	Firm	Rating	Action	Price Target	Upside	Date
Brad Erickson ★★★★★	RBC Capital	Buy	Maintains	\$175 → \$190	+16.31%	Nov 1, 2024
Naved Khan ★★★★★	B. Riley Securities	Strong Buy	Maintains	\$170 → \$190	+16.31%	Oct 31, 2024
Mark Zgutowicz ★★★★★	Benchmark	Strong Buy	Maintains	\$186 → \$200	+22.43%	Oct 31, 2024
Vikram Kesava... ★★★★★	Baird	Buy	Maintains	\$190 → \$200	+22.43%	Oct 31, 2024



Per-Share Earnings, Actuals & Estimates GoDaddy Inc. Cl A

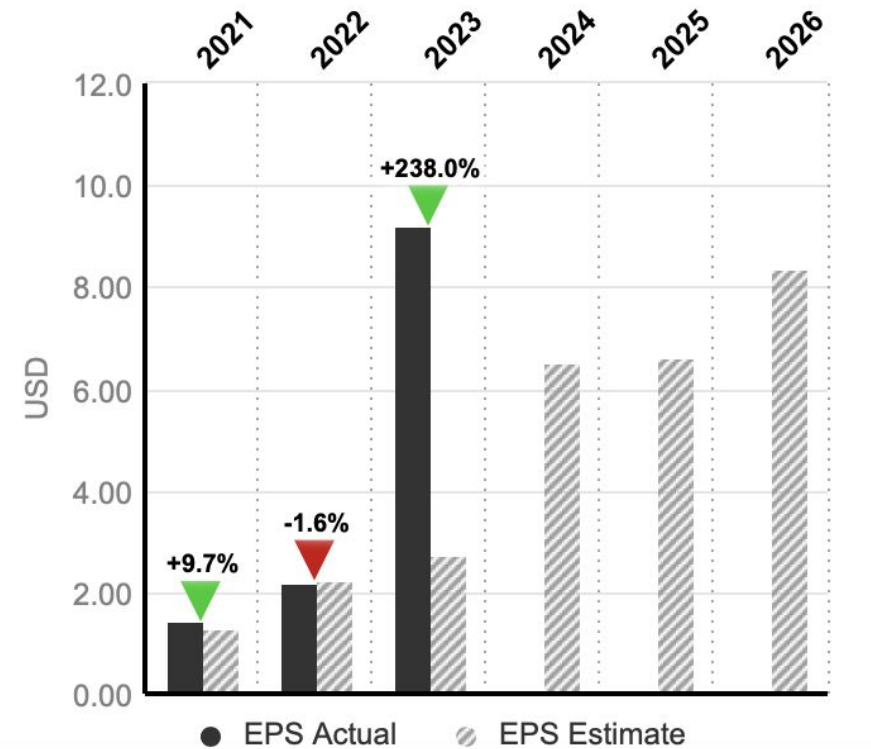


Share Buybacks

Share Repurchase Program

- **Initial Buyback:** Started in August 2021 with a \$250 million accelerated share repurchase (ASR), leaving \$750 million authorized for future repurchases.
- **Expanded Authorization:** In February 2022, GoDaddy launched a \$3 billion multi-year buyback program, executing \$750 million in ASR agreements with Goldman Sachs and Morgan Stanley.
- **Recent Activity:** As of October 28, 2024, GoDaddy has repurchased 5.2 million shares year-to-date for \$668.1 million at an average price of \$129.02, reducing fully diluted shares by 23% since January 2022.

Annual profits - Rate of surprise



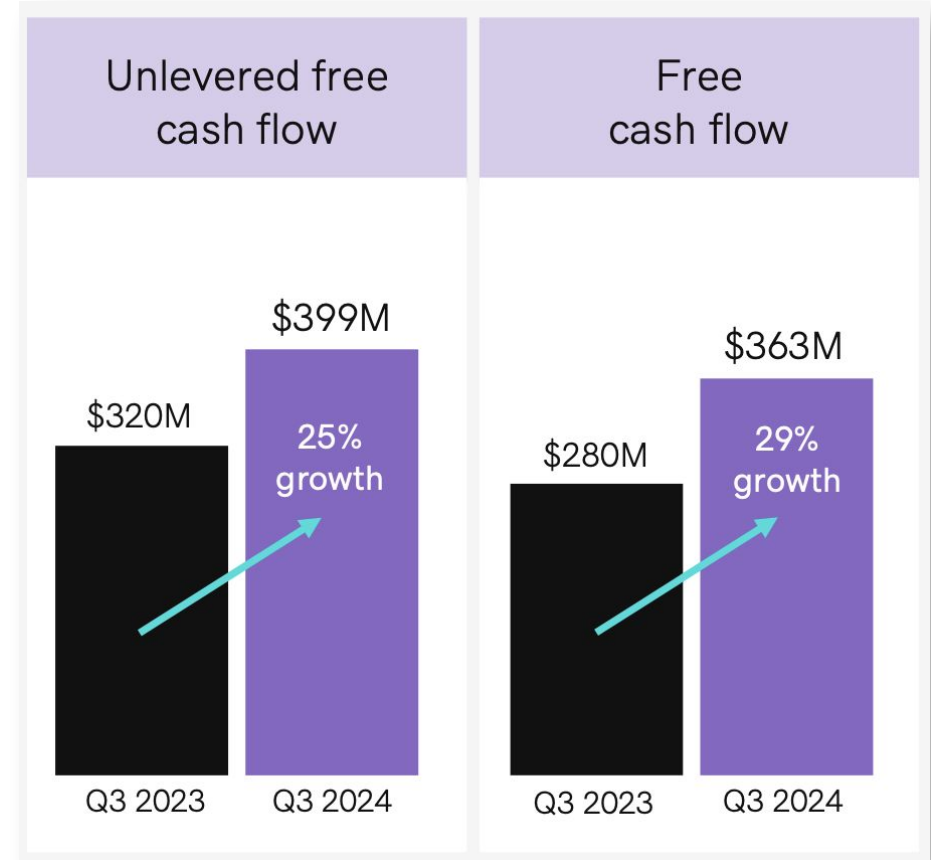
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Recent 10k Highlights

Key Milestones (Q3 2024):

- Total revenue reached \$1.15 billion, representing a 7% increase year-over-year. This growth was driven by strong performance in the Applications & Commerce (A&C) segment, which grew 16%, and a moderate 4% growth in the Core Platform.
- **Net income increased by 45%** year-over-year to \$190.5 million, with a notable net income margin improvement to 17%.
- Net cash from operating activities rose 26% to \$355.2 million, and **free cash flow increased 29%** to \$362.7 million.
- GoDaddy **repurchased 5.2 million shares** year-to-date, reducing fully diluted shares outstanding by 23% since the start of the buyback program.
- **Launch of GoDaddy Airo:** Continued rollout of GoDaddy's AI-driven experience, now operational in over 180 countries, emphasizing the company's focus on leveraging AI to enhance user experience.



Recent SEC Reporting Summary

- Q3/Q4 inflection point due to increased profitability (lower expenses and operational efficiencies)
- Significant international revenue (32% of 2023 total)
 - No international country represented more than 10% of total revenue
 - No single customer represented over 10% of total revenue
- Customer retention rate of 85% on average (92% for customers who've been with GoDaddy for 3+ years)
- Bookings increase of 20% in Q3 2023. Increasing share use free subscription offering
- Marketing and advertising expense decreased by 18% and 14% during the past two years
- No dividends due to subsidiary restrictions and debt covenants. Aggressive share buyback program in 2023.



Company Overview

Company Name:	GoDaddy, Inc.	Current Date:	11/01/24
Ticker:	GDDY	Current Price:	\$ 163.50
Sector:	Technology	Target Date:	11/01/25
Industry:	Software Infra.	Target Price:	\$ 194.57
Shares Out.:	141.5 Million	Monthly Volume:	1.1 Million
Market Cap:	\$ 23.51 Billion	Beta:	1.12 (5yr monthly)



Discounted FCFF

Free Cash Flow to the Firm (FCFF):

Also called **Unlevered Free Cash Flow**, is a multi-step calculation used in a Discounted Cash Flow analysis to estimate Enterprise Value (total firm value). FCFF is a hypothetical figure, an estimate of what it would be if the firm was to have no debt.

Corporate Finance Institute: Cash Flow Guide



Discounted FCFE

Free Cash Flow to Equity (FCFE):

Also called **Levered Free Cash Flow**, is used in financial modeling to estimate the equity value of a firm. It only represents the cash flow available to equity investors (interest to debt holders has already been paid).

Corporate Finance Institute: Cash Flow Guide



Comparable Company Analysis

Comparable Company Analysis:

“**Comps**” for short, is a valuation methodology that looks at ratios of similar public companies and uses them to derive the value of another business. Comps is a relative form of valuation, unlike a Discounted Cash Flow (DCF) analysis, which is an intrinsic form of valuation.

Corporate Finance Institute: Comparable Company Analysis



Key Terms

Performance Metrics

- **Alpha (α):** Measures a strategy's performance relative to a benchmark. Positive alpha indicates outperformance.
- **Sharpe Ratio:** Risk-adjusted return based on total risk (Return - Risk-Free Rate) / Standard Deviation.
- **Sortino Ratio:** Similar to Sharpe, but only considers downside risk, ignoring positive volatility.
- **Information Ratio:** Measures returns above a benchmark relative to the tracking error.
- **Treynor Ratio:** Risk-adjusted performance based on beta (Return - Risk-Free Rate) / Beta.

Parameters

- **Market Cap:** Total value of a company's shares (Share Price \times Total Shares Outstanding).
- **P/E Ratio:** Price-to-Earnings Ratio. Measures how much investors pay per dollar of earnings.
- **Rebalance:** Adjusting portfolio holdings to match the desired allocation (e.g., quarterly).

Risk Measures

- **Beta (β):** Measures sensitivity to market movements. A beta of 1 means the stock moves with the market.
- **Idiosyncratic Risk:** Risk unique to a specific asset, not due to market movements (e.g., company-specific events).
- **Systematic Risk:** Market-wide risk that affects all securities (e.g., interest rate changes).
- **Standard Deviation (σ):** Measures volatility by showing how much returns deviate from the average.
- **Max Drawdown:** The maximum observed loss from peak to trough during a specific period.
- **SML (Small Minus Large):** Measures the excess return of small-cap stocks over large-cap stocks.
- **HMB (High Minus Low):** Measures the excess return of high book-to-market stocks over low book-to-market stocks.



Key Terms continued

Valuation Terms

- **EV = Enterprise Value:** is a measure of a company's total market value, including equity, debt, and other ownership interests. It represents the effective cost of acquiring a company before any takeover premiums.
 - *Simple EV* = Market Capitalization + Market Value of Debt – Cash and Equivalents
 - *Extended EV* = Common Shares + Preferred Shares + Market Value of Debt + Noncontrolling Interest – Cash and Equivalents
- **TV = Terminal Value:** estimates a business's value beyond the forecast period, often representing a significant portion of the total valuation in financial models. It can be calculated using either the perpetual growth method or the exit multiple approach.
 - *Perpetual Growth:* Used by Academics, assumes business will continue to generate Free Cash Flow at a normalized rate forever.
 - *Exit Multiple:* Used by Industry, assumes business is sold for a multiple of some metric, typically EBITDA, based on currently observed comparable trading multiples.
 - $TV = \text{Financial Metric (i.e. EBITDA)} \times \text{Trading Multiple}$
- **RV = Relative Valuation:** Models are used to value companies by comparing them to other businesses based on certain metrics such as EV/Revenue, EV/EBITDA, and P/E ratios. The logic is that if similar companies are worth 10x earnings, then the company that's being valued should also be worth 10x its earnings. The two most common types of relative valuation models are **comparable company analysis** and **precedent transactions analysis**.
- **EBITDA = Earnings before Interest, Taxes, Depreciation, and Amortization:**
 - The EBITDA metric is a variation of operating income (EBIT) that excludes certain non-cash expenses. The purpose of these deductions is to remove the factors that business owners have discretion over, such as debt financing, capital structure, methods of depreciation, and taxes (to some extent). It can be used to showcase a firm's financial performance without the impact of its capital structure.
 - EBITDA is not a recognized metric in use by IFRS or US GAAP. In fact, certain investors like Warren Buffet have a particular disdain for this metric, as it does not account for the depreciation of a company's assets.



Key Terms continued

Valuation Terms Continued

- **NOPAT = Net Operating Profit After Tax:** NOPAT stands for Net Operating Profit After Tax and represents a company's theoretical income from operations if it had no debt (no interest expense). NOPAT is used to make companies more comparable by removing the impact of their capital structure. In this way, it's easier to compare two companies in the same industry (i.e., one with no leverage and the other with significant leverage).
- **Spread:** The difference or gap between two related values, such as buying or selling prices.
- **CAGR = Compound Annual Growth Rate:** The measure of an investment's annual growth rate over time, with the effect of compounding considered. It is often used to measure and compare the past performance of investments or to project their expected future returns.
 - $CAGR = (Ending\ Value / Beginning\ Value)^{(1 / No.\ of\ Periods)} - 1$.
- **WACC = Weighted Average Cost of Capital:** the average rate a company expects to pay to finance its assets, weighted by the proportion of equity and debt in its capital structure.
- **Unlevered versus Levered:**
 - Levered cash flow is the amount of cash a business has after it has met its financial obligations.
 - Unlevered free cash flow is the money the business has before paying its financial obligations.
 - It is possible for a business to have a negative levered cash flow if its expenses exceed its earnings.
- **Bloomberg's Debt Adjustment Factor:** Represents The debt adjustment factor (AF) reflects the average yield premium over government bonds for a specific rating class, increasing with lower ratings. It applies when a company lacks a fair market curve (FMC). If no credit rating is available, an assumed rate of 1.38 (equivalent to a BBB+ S&P rating) is used. The calculation is proprietary to Bloomberg.

