GoDaddy Research

Description: Designs and develops cloud-based technology products for small businesses, Web design professionals, and individuals in the United States and internationally. It provides domain name registration product that enables to engage customers at the initial stage of establishing a digital identity; hosting products, such as shared Website hosting, Website hosting on virtual private servers and virtual dedicated servers, managed hosting, and security. The company also offers presence products, including GoCentral, an online tool that enables customers to build Websites and online stores; and a range of marketing tools designed to help businesses acquire and engage customers, as well as search engine optimization that helps customers get their Websites found on search sites

Ticker: GDDY

Price: $65.26

Market Cap: $10.9B

Performance: +29.8% YTD

Analysis:

Shares of GoDaddy are up about 30% YTD even after the turbulence in the markets over the last 8 weeks or so. Shares trade around $65 but were as high as $84 bucks on October 1st. The question now is whether we believe the pullback creates an area of opportunity. Put simply, we do.

If we look at GDDY last quarter we'll see the following:

- Total revenue of $679.5 million, up 16.7% Y/Y
- Total bookings of $741.8 million, up 11.0% Y/Y
- Net cash provided by operating activities of $154.0 million, up 17.2% Y/Y
- Customers of 18.3 million as of September 30, 2018, up 6.7% Y/Y

Ok so let's break this down a bit. While the company did beat on revenue estimates with about $680M (beat by $5.7M) they did miss on EPS of $0.08 (missed by $0.10). When we dive into the nitty gritty though we still think there a lot of positives out there. First, we believe we can all agree that in today's environment even the smallest businesses are expected to have a legitimate website. Not only does GDDY provide the domains for them they're also providing the actual hosting as well as helping businesses integrate with things like Office365. To be honest, we use GDDY for all of our domains and integrations (not website hosting though we use Shopify and WIX for our companies). Regardless, the standard for businesses is growing online and this will only keep growing as the standard for what companies should have, large or small.

There are a lot of bright spots here. We'd like to highlight a few that stand out to us the most.

- Average revenue per user (ARPU) of $145, up 8.6%Y/Y
- Domains revenue of $309.5 million, up 14.0% Y/Y
- Hosting and Presence revenue of $263.2 million, up 16.5% Y/Y
- Business Applications revenue of $106.8 million, up 25.9% Y/Y.
- International revenue of $236.0 million, up 19.1% Y/Y
- Unlevered free cash flow of $175.6 million, up 28.0% Y/Y

There is a lot of opportunity, we feel, abroad, and their 19.1% growth Y/Y is showing that. Another thing, while revenues grew 16.7%, their cash flow grew 28% Y/Y and if you know one thing about CUBE we put a lot of weight on cash flow. This increase actually bumped their cash in the vault to from $582M to $851M, above last year's balance of $537M.

Another thing we need to highlight is that client growth is alright at 6.7% but what's better is that the average rev per user is growing even faster at 8.6%. Similar to retailers and their same store sales, this metric is extremely important for their future growth and is one of the first numbers we sought to find.

Overall, all of these numbers are trending upward on their Q3 call. For the year end, management expects 2018 to finish up with 19% revenue growth between $2.65B and $2.66B and free cash flow growth of 25% to $620M for the year.

With this in mind let's break down the fundamentals:

P/E: 85.9x

F P/E: 21.3x

P/S: 4.3x

F P/S: 3.8x

PEG: 1.4x

F EV/EBITDA: 16.8x

So fundamentally, we'd say GDDY is valued quite fairly at these levels. Back in the mid $80s you could have argued it was a bit expensive but with 19% growth and cash flow close to 30% we think it warrants a 21x forward multiple. When you look at a competitor like Verisign (VRSN) it looks even more attractive as VRSN is only growing revs around 4% and trades at closer to 31x forward earnings and 15x forward sales.

On the technical side, the relative strength index and money flow index say its in good territory, neither overbought or oversold. Its resting right around the middle channel on the Bollinger band which also means it's in a pretty sturdy area but it seems to overbought a bit on the Williams %R. You could see a small pullback to like the $62 area short term but there's a solid chance that the markets just push full steam ahead with the positive news that came out of the G20 summit with Trump and Xi.

Overall, we think this is a pretty nice buy down here.