ENDURANCE
International Group

The following prepared remarks are an excerpt from the 2014 First Quarter Earnings Conference Call of Endurance International Group Holdings, Inc. To review the contents of the entire call, please refer to the official webcast, which is available in the investor relations section of Endurance's website at www.endurance.com.

Statements in these prepared remarks which are not statements of historical fact, including but not limited to statements concerning our expected future growth opportunities, our financial guidance for fiscal year 2014 (including the second quarter of fiscal year 2014), our long term annual growth rate expectations and our expectations regarding subscriber and ARPS growth, are "forward-looking statements" (as defined in the U.S. Private Securities Litigation Reform Act of 1995). These forward-looking statements are based on our current expectations and beliefs, as well as a number of assumptions concerning future events. These statements are subject to risks, uncertainties, assumptions and other important factors set forth in our SEC filings, many of which are outside our control, that could cause actual results to differ materially from the results discussed in the forward-looking statements. Some of the key factors that could cause actual results to differ from our expectations include: the rate of growth of the SMB market for our solutions; our inability to maintain a high level of subscriber satisfaction; our inability to continue to add new subscribers and increase sales to our existing subscribers; system or Internet failures; our dependence on establishing and maintaining strong brands; our inability to maintain or improve our competitive position or market share; the loss of strategic relationships or alliances with third parties; our inability to integrate recent or potential future acquisitions; the business risks of international operations; the loss or unavailability of any of our co-located data centers; our recognition of revenue for subscription-based services over the term of the applicable subscriber agreement; the occurrence of security or privacy breaches; and adverse consequences of our substantial level of indebtedness.

You are cautioned to not place undue reliance on such forward-looking statements because actual results may vary materially from those expressed or implied. All forward-looking statements are based on information available to us on May 6, 2014, the date of the Earnings Conference Call, and we assume no obligation to, and expressly disclaim any obligation to, update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

These prepared remarks also contain non-GAAP financial measures as defined by the Securities and Exchange Commission in Regulation G. Reconciliations of the non-GAAP financial measures to their comparable GAAP measures are included in the First Quarter 2014 earnings release and presentation, each dated May 6, 2014, and available in the investor relations section of our website at www.endurance.com.

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Blake Cunneen - Endurance International Group Holdings, Inc. - SVP- Corporate Development and IR

Hi, my name is Blake Cunneen and I'm the Senior Vice President of Corporate Development and Investor Relations. On behalf of the Endurance International Group, it is my pleasure to welcome you to our first quarter Earnings Call. We will first go through some prepared remarks after which we will turn to Q&A. A presentation to go alongside our comments is available at the investor relations section of our website at Endurance.com. While not necessary to follow along, we recommend using the presentation slides alongside our prepared remarks. As is customary, let me now read the safe harbor statement.

Statements made on today's call will include forward-looking statements about Endurance's future expectations, plans and prospects. All such forward-looking statements are subject to risks and uncertainties. Please refer to the cautionary language in today's earnings release and to our Form 10-K filed with the SEC on February 28, 2014 for discussion of the risks and uncertainties that could cause our actual results to be materially different from those contemplated in these forward-looking statements. Endurance does not assume any obligation to update any forward-looking statements.

During this call, we will present several non-GAAP financial measures, including adjusted EBITDA, unlevered free cash flow (UFCF), free cash flow (FCF), adjusted revenue and average revenue per subscriber (ARPS). A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures is available in the presentation located at the investor relations section of our website.

With that, I will turn you over to Hari Ravichandran, our founder and CEO.

Hari Ravichandran - Endurance International Group Holdings, Inc. - Founder and CEO

Thanks Blake, hello everyone and welcome to our first quarter earnings call. For those of you new to Endurance, the first few pages of our presentation available on the IR section of our website provide a brief overview of our company.

This was a very strong quarter for Endurance as solid growth in our core operating metrics drove financial performance. For the first quarter Adjusted Revenue was $152.8 million, ahead of our guidance of $145 - $147 million. Adjusted EBITDA and Unlevered Free Cash Flow (UFCF) also exceeded expectations at $59 million and $49 million, ahead of guidance of $55 - $57 million and $42 - $44 million, respectively. We were also able to grow our Free Cash Flow (FCF) to $35 million, benefitting from the post-IPO refinancing which saw reductions in both our bank debt levels as well as our cost of debt. Excluding the impact of the Directi acquisition, we grew our adjusted revenue more than 13% over Q1 2013.

Subscribers, our most valuable asset, once again drove strong revenue growth. In the first quarter, we organically added 101,000 net new subscribers to our platform, bringing our total subscribers to over

3.6 million. Surpassing 100,000 net adds in a quarter represents an important milestone for the Company, highlighting the strength of both our subscriber acquisition funnel and the SMB market in general. Customer advocacy and word of mouth advertising continue to be our most important channel for acquiring new subscribers. Also important is our growing network of over 500,000 online partners who educate SMBs searching for providers to help them establish an online presence, and refer potential subscribers to one of our brands. Our partnerships with Google under the Get American Business Online and Get India Business Online programs, as well as our partnerships with Verizon, WordPress and Drupal also contributed substantially to subscriber additions.

During the quarter we increased our investment in marketing. Now that we have completed the integration of HostGator and Homestead, we are able to redeploy spend towards marketing, driving revenues across the integrated platform. We are also continuously seeking and evaluating ways to broaden our subscriber acquisition funnel and have begun using lead-in products such as storage and back up to drive subscriber acquisitions. We saw very favorable results from these investments and plan to continue to develop and grow these additional channels throughout the rest of the year. Our subscriber acquisition costs were consistent with subscriber acquisition costs incurred in prior quarters as we leveraged our multi-brand strategy to carefully segment the market and deploy our marketing dollars prudently based on ROI consistent with historical trends. Overall, we see a healthy market in the creation of SMBs and their desire to establish an online presence, and we will continue to develop our subscriber acquisition funnel to take advantage of these trends.

Moreover, the quarter marked an important step towards bolstering our presence in rapidly growing international markets. During the quarter, we closed the previously announced acquisition of Directi, a preeminent provider of web services across a variety of growing geographies, and also separately launched an instance of our Bluehost brand in China and expanded our reach in India, with impressive results to date. We believe that expanding our multi-brand go-to-market strategy to international markets positions us well for additional subscriber growth in the future.

Moving to our other component of revenue growth, Average Revenue Per Subscriber (ARPS) jumped to $14.18 for the quarter, or $13.45 excluding the impact of Directi. During the quarter, sales and marketing spend grew as we increased our investment in product marketing. These investments in product marketing, together with strong renewals and an increase in product upsells, contributed to our year over year ARPS growth. We are seeing favorable returns in product marketing and expect to continue to invest in this area to drive our topline growth this year. While these investments are generally neutral on a cash flow basis in the first year, in our experience they become highly cash flow generative over the lifetime of the product renewal cycle.

During the quarter we also expanded our distribution channels by integrating our application marketplace, Mojo, with our Bluehost brand and achieved important technical milestones to similarly facilitate the anticipated launch of the Mojo marketplace on the HostGator brand in Q2. While a majority of additional products and services are sold online, we made significant progress with training our support organization to upsell subscribers as they engage with us on support issues. We also implemented new CRM software to help our sales organization better identify the subscribers most likely to buy our products and completed important updates to our BI infrastructure, both of which resulted in improved yield from our sales campaigns. These efforts combined with introducing additional, higher value lead-in products also contributed meaningfully to year over year growth in ARPS.

Overall, our first quarter performance is very consistent with the strategy we have communicated to investors since our initial public offering. As we discussed on past calls, last year we successfully migrated two large acquisitions we completed in the second half of 2012. With the migrations complete, we have increased our marketing spend, thereby increasing growth. We feel strongly enough about the momentum in the business that we are raising our full year 2014 adjusted revenue guidance of $630 million - $635 million to $637 million - $642 million, which implies an acceleration from our growth rate last year. The increased marketing investments and public company costs are reflected in guidance and Q1 performance. Next year we are confident those investments will pay off, and we expect to see both the long-term growth we have articulated as well as a return to historical margin trends.

Next, I'd like to hand it over to Tiv Ellawala, our CFO, who will run through the financials and operating metrics in greater detail. Tiv.

Tiv Ellawala - Endurance International Group Holdings, Inc. – CFO

Thanks Hari. The first quarter of 2014 was a great example of the power of our two pronged growth strategy, as the Company recorded significant gains in both subscribers and ARPS. As Hari noted, we added over 101,000 net new subscribers to our platform in Q1 excluding any subscribers we gained through Directi. This continued our track record of meaningful, steady subscriber growth, which has increased at a compound annual growth rate of over 10% over the last 8 quarters. In addition to organic subscriber growth, the Directi acquisition contributed a total of 51,000 subscribers, bringing our subscriber base to over 3.65 million. ARPS growth was also strong in the first quarter, increasing $1.28 over Q1 2013 to $14.18. Excluding Directi, ARPS grew to $13.45, which is a $0.55 increase over Q1 2013, and a $0.30 sequential increase over the prior quarter. Increased product adoption once again led this growth, as the number of additional products sold per subscriber increased to 4.3 from 3.5 products per subscriber in Q1 2013. Furthermore, the total number of subscribers paying us $500 or more per year also grew to 106,000, 6,000 more than just 3 months prior. Finally, our MRR Retention Rate remained stable at 99%.

Please note, we have separated out the impact of Directi to both highlight its performance as well as clarify our organic growth. We will report subscribers, ARPS and Adjusted Revenue on a combined basis and excluding the impact of Directi until we have fully integrated the business, which we expect to happen over the next few quarters.

Turning to the financial results, GAAP revenue for the quarter was $145.7 million, which increased 19% over revenue generated during the first quarter of 2013. This growth was driven by the gains in both subscribers and ARPS noted earlier, and the impact of Directi. Adjusted revenue was $152.8M for the first quarter. Adjusted revenue excluding the Directi acquisition was $143.3 million, which was more than 13% higher than the adjusted revenue generated in Q1 2013.

Adjusted EBITDA was $59.1 million or 2% higher than the comparable amount earned in Q1 2013 and UFCF was $49.0 million which was 9% higher than the UFCF generated in Q1 last year. As we expected and consistent with our guidance, the incremental people and infrastructure related costs required to operate as a public company along with accelerated marketing spend impacted our EBITDA growth over last year. Our UFCF was favorably impacted by reduced capex spend as we completed the migration of HostGator and Homestead onto our integrated technology platform at the end of last year. Our FCF was $35.5 million or 47% higher than the amount generated in Q1 last year as we benefited from scale and reduced financing costs following our IPO. As Hari noted, we are continuing to find channels to invest behind marketing initiatives that are driving both subscriber and ARPS growth. These investments are generally cash flow neutral in the first year of investment. However, we are very confident that these investments will contribute to cash flow starting in 2015 as subscribers remain on platform, renew their subscription, and buy additional products with minimal required incremental marketing investment.

Moving on to our capital structure, total bank debt remained stable, declining slightly due to amortization payments associated with our term loan. Deferred purchase obligations increased in conjunction with the Directi acquisition, which we closed in January. Of the total purchase price of $109 million, we funded approximately $50 million in the first quarter which was financed with 50% cash and 50% stock. With the exception of a small working capital adjustment, we paid the remaining portion of the purchase price in cash in the second quarter of 2014, using cash on hand, cash flow from operations, and borrowings on our $125 million revolving credit facility. Over the medium term, we expect to manage our debt levels to less than 4.0x Adjusted EBITDA through a combination of growing our EBITDA and opportunistically paying down our bank debt.

Moving on to guidance, as Hari mentioned, given the strength in the fundamentals of the business as well as the strong momentum we are seeing coming out of Q1, we are raising our full year 2014 adjusted revenue guidance of $630 million - $635 million to $637 million - $642 million, which implies a more than 14% growth rate excluding Directi. We are re-affirming our UFCF guidance of $180 million-$190 million and adjusted EBITDA guidance of $230 million - $235 million. We expect to invest to drive topline growth while managing to our EBITDA range as we continue to evaluate new subscriber on-boarding programs and marketing campaigns. Given the strength of our subscriber economics and lifetime value, we feel it's important to continue to invest in adding subscribers on to our platform. For the second quarter of 2014, we expect adjusted revenue to be $154 million $156 million, UFCF to be $41 million - $43 million, and adjusted EBITDA to be $54 - $56 million.

With that, I will turn you back to Hari to discuss our growth prospects and certain initiatives we're implementing. Hari?

Hari Ravichandran - Endurance International Group Holdings, Inc. - Founder and CEO

Thanks Tiv.

We are excited by the many opportunities we have to sustain our organic growth rate for the foreseeable future and the many ways we have to attract new subscribers to our platform and grow our existing subscriber relationships. As we prioritized our investments for 2014, we focused on a few areas that offer the best opportunities to achieve our near term objectives while providing a strong foundation for sustained future growth.

First, the foundation of everything we do is rooted in our technology platform, which allows us to quickly identify the subscribers around the world best suited to take advantage of our products, then cost effectively deliver applications and services to those subscribers at scale. As our subscribers are increasingly taking advantage of cloud based technologies to extend their online presence, we expect to continue to reinvest between 5.5% and 6% of our adjusted revenues on CapEx. We are making these investments in new data center space and capacity, new gear and developing new IP to provide ourselves with an advantage in creating robust applications and a services delivery architecture that allows us to operate as a cost leader in our space. Furthermore, as we build out our cloud infrastructure across our brands, we plan to steadily increase the amount of cloud based applications and services on our platform, helping us to upsell to more price conscious subscribers in emerging markets as well as increase the penetration of new and existing subscribers in mature markets. We are particularly excited about the release of our managed WordPress solution. As one of the largest WordPress partner platforms, we are in a strong position to deliver a more valuable offering to subscribers who value faster performance, integrated security and expert support for WordPress - one of the most popular content management systems on the Internet. The improvements to our technology platform will also make it far easier for our subscribers seeking additional compute power through virtual private servers or dedicated servers to seamlessly migrate to these higher priced services. We are running preliminary tests on some of these improvements on our Bluehost brand and expect to roll-out in the second half of the year. We expect that these changes will help drive additional ARPS growth and improve our subscriber retention.

Second, we are investing behind domains. The impending availability of nearly 700 new top level domains, or nTLDs, combined with our recent acquisition of Directi, have poised Endurance to become an even stronger global leader in the domain market. We currently have over 17 million domains under management, giving us a large footprint across a range of US and international domains. By standardizing on Directi's world-class domain management platform across our existing brands, we can better service the 17 million domains we currently have under management while allowing us to more quickly bring these new TLDs to market. Already one of the largest and fastest growing registrars worldwide, we are also investing directly in a select portfolio of these new TLDs with our partners associated with Directi to acquire new domains as well as to improve monetization of our existing domains. As a result, we expect growth in our domain business line over the next several years as more new domain names become available and mature.

Third, we are investing behind mobile. The increasing penetration of mobile devices worldwide presents many important growth opportunities for both Endurance and our subscribers. Now more than ever, it has become table stakes for small businesses to have mobile versions of their websites. Since 2012, we have been successfully marketing a variety of products and services that ensure our subscribers' websites are rendered seamlessly across various screen sizes and across a wide range of connectivity and bandwidth standards. More recently, we've expanded our marketing services to include offerings that are specifically tailored to capturing high quality mobile traffic. As we continue to expand these offerings to allow our subscribers to better engage with their customers, we are also investing in a set of mobile tools and applications that will allow our subscribers to connect and transact on any screen, anytime and anywhere. The first application, which we plan to release in Q3, will provide our subscribers with access to relevant and personalized content to guide them along their online journey. We intend to leverage our acquisition and distribution platform to rapidly build out this very powerful communication touchpoint for Endurance and our community of subscribers.

Fourth, we will expand our geographic footprint by taking our portfolio of brands to international markets. We continue to execute on our multi-brand strategy to reach and serve distinct subscriber segments domestically and abroad. The Directi acquisition and its word class technology platform have allowed us to rapidly expand our reach in emerging markets in a scalable and cost effective way. Bluehost China went live in Q1, and we plan on launching Bluehost sites in India, Turkey, Brazil and Russia in the second half of the year. Given the early success we've seen in the Bluehost launch, we plan on developing HostGator sites in those geographies beginning in the second quarter and through the second half of the year. As we have seen domestically, implementing a multi-brand strategy allows us to tailor our message to distinct market segments and we expect it will enable us to yield the high subscriber conversion rates we enjoy in the U.S.

Finally, as we are always quick to point out, a robust product suite is not valuable unless you have a refined method of distribution. To that end, we will continue to increase our capacity to engage our subscribers across a diverse set of touch points. For example, we are increasing the number of products available on the Mojo marketplace and plan to roll-out Mojo among several of our brands beyond Bluehost starting in Q2. In doing so, we will be adding to our distribution capabilities, which today include online brand websites, control panels and our sales and support teams. We will also continue to invest in technologies that enhance our BI and help us improve analytics on the data we collect so we may better match subscriber needs with the products we offer across all our distribution channels. We are also making progress with training our support agents to help our subscribers access our broad portfolio of products, converting support calls to upsell opportunities when appropriate.

This is just a sampling of some of the items we're excited about as we look to the rest of 2014 and beyond. We remain confident that these and other factors position Endurance to capitalize on the robust market in which we operate. Thank you all for taking the time to listen today and for your interest in Endurance. With that, I'll turn it back over to the operator for Q&A. Operator?