



The following prepared remarks are an excerpt from the 2016 Second 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](http://www.endurance.com). These prepared remarks should be read in conjunction with Endurance's 2016 Second Quarter Earnings Presentation slides, which are available at the same location.

### **Changes to non-GAAP financial measures**

During the second quarter, the company made several changes to its non-GAAP financial measures in light of recent Compliance and Disclosure Interpretations (C&DIs) issued by the staff of the U.S. Securities and Exchange Commission (SEC), and in an effort to simplify some of its non-GAAP measures. The company has changed the definition of its adjusted EBITDA measure to GAAP net (loss) income, excluding the impact of interest expense (net), income tax expense (benefit), depreciation, amortization of other intangible assets, stock-based compensation, restructuring expenses, transaction expenses and charges, (gain) loss of unconsolidated entities, and impairment of other long-lived assets. This revised measure, does not adjust for changes in deferred revenue, and includes the impact of the following items which were previously excluded: (gain) loss on sale of assets, integration expenses, legal advisory expenses, and purchase accounting impact of reduced fair value of deferred domain registration costs.

Further, after the second quarter, the company will no longer present adjusted revenue, and has therefore changed its average revenue per subscriber (ARPS) definition such that it is now based on GAAP revenue rather than adjusted revenue. Please see the Appendix to the company's second quarter earnings release for a presentation of the company's revised definitions of adjusted EBITDA and ARPS for prior periods, as well as a reconciliation of the revised definitions to previous definitions of adjusted EBITDA and ARPS.

*These prepared remarks contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements concerning: our financial guidance for fiscal year 2016; our intention in our core business to increase our focus on retention programs while maintaining the same level of investment; our expectations for marketing spend on our growth/gateway products in the second half of 2016; our intention to refine our efforts with respect to, and continue our focus on, our growth/gateway products as an important component of our overall strategy; the anticipated results of our efforts to centralize and streamline the management of our growth/gateway product portfolio; the anticipated results of the integration of the AppMachine and Webzai teams; our expectations that steady performance and contribution from our flagship brands and Constant Contact will allow us to fuel investment in our growth/gateway products and provide us flexibility in capital allocation decisions; our plans for continued investment in, and our expectations for performance of, the Constant Contact brand; our expectations that growth/gateway brands will over time provide increasing contributions to profit and drive top-line growth; our expectations for lower to flat net increases in total subscribers through the remainder of 2016; our belief that our 2016 free cash flow excluding the impact of transaction, integration and restructuring expenses will provide us a healthy free cash flow run rate for 2017; our expectations that the difference between our previous and revised definitions of adjusted EBITDA will trend to the lower teens over time; our belief that our investment decisions during 2016 will augment our position in the marketplace and fortify our foundation; and our expected financial and operational performance in general. These forward-looking statements include, but are not limited to, plans, objectives, expectations and intentions and other statements contained in these prepared remarks that are not historical facts, and statements identified by words such as "expects," "anticipates,"*

*“intends,” “plans,” “believes,” “seeks,” “future,” “strive,” “see,” “estimates,” “will,” “should,” “may,” “continue,” “confident,” “committed,” and variations of such words or words of similar meaning and the use of future dates. These forward-looking statements reflect our current views about our plans, intentions, expectations, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions, expectations, strategies and prospects as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that these plans, intentions, expectations or strategies will be attained or achieved. Furthermore, actual results may differ materially from those described in the forward-looking statements and will be affected by a variety of risks and factors that are beyond our control including, without limitation, the possibility that our fiscal 2016 guidance may differ from expectations; the possibility that we will continue to encounter challenges in carrying out our plans for our growth/gateway products or that our core business will perform below our expectations; an adverse impact on our business from our substantial indebtedness and the cost of servicing our debt; an adverse impact on our business from litigation or regulatory proceedings; actual or contingent liabilities; the rate of growth of the Small and Medium Business (“SMB”) market for our solutions; our inability to maintain a high level of subscriber satisfaction; our inability to continue to add new subscribers, increase sales to our existing subscribers, or retain our existing subscribers; system or Internet failures; our inability to maintain or improve our competitive position or market share; the loss of strategic relationships or alliances with third parties; the business risks of international operations; the loss or unavailability of any of our data centers; our recognition of revenue for subscription based services over the term of the applicable agreement; the occurrence of security or privacy breaches; and other risks and uncertainties discussed in our filings with the SEC, including the “Risk Factors” section of our most recent Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 and other reports we file with the SEC. You can obtain copies of our filings with the SEC for free at the SEC’s website ([www.sec.gov](http://www.sec.gov)). We do not assume any obligation to update any forward-looking statements contained in this document as a result of new information, future events or otherwise.*

*These prepared remarks include data based on our internal estimates. While we believe that our internal estimates are reasonable, no independent source has verified such estimates.*

*The information on, or that can be accessed through, any of our websites is not deemed to be incorporated in this prepared remarks or to be part of these prepared remarks.*

**Non-GAAP Financial Measures:** *these prepared remarks contain non-GAAP financial measures as defined by the SEC in Regulation G, including, among others, adjusted revenue, adjusted EBITDA, previous adjusted EBITDA and free cash flow. Definitions of these non-GAAP financial measures and reconciliations to their comparable GAAP measures are included in are included in our 2016 second quarter earnings release and presentation, each dated August 2, 2016, and available in the investor relations section of our website at [www.endurance.com](http://www.endurance.com).*

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## **Angela White – VP, Investor Relations**

Hi this is Angela White, VP of Investor Relations at Endurance International Group. It is my pleasure to welcome you to our second quarter 2016 earnings call. First, we will go through some prepared remarks after which we will turn to Q&A. We have prepared a presentation to accompany our comments which is available at the investor relations section of our website at [ir.endurance.com](http://ir.endurance.com). While not necessary to follow along, we recommend referencing 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-Q filed with the SEC on May 9, 2016 for a 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 reference several non-GAAP financial measures, including revised and previous adjusted EBITDA, 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 in the investor relations section of our website. In addition, please note that references to year-over-year pro forma growth refer to our pro-forma results as if we had owned Constant Contact for all of Q2 2015.

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

#### **Hari Ravichandran – Founder and CEO**

**Slide 4** Thanks Angela. Good morning everyone, and welcome to our second quarter 2016 earnings call. Our Q2 results reflected continued growth in revenue and adjusted EBITDA. GAAP revenue was \$290.7 million. GAAP net loss was \$(33.4) million, and GAAP cash from operations was \$53.8 million. Adjusted EBITDA was \$76.9 million, and free cash flow was \$41.6 million. I would like to highlight that starting this quarter our adjusted EBITDA is based on a revised definition, which Marc will discuss on slide 9.

Overall we continue to focus on opportunities ahead of us, which we believe will fortify our position as a leader in the online small business marketing space for years to come. Our year over year pro forma revenue growth was 6%, and pro forma adjusted EBITDA growth was 13%. This reflects healthy growth as we progress toward a longer-term vision.

**Slide 5** Our plan for 2016 was to invest in expanding our addressable market and deploy more marketing spend into growth products while maintaining marketing spend at 2015 levels in our core hosting brands. The plan was based on key initiatives which we believe will drive our longer-term strategic and financial goals. Our flagship business, which includes brands such as Bluehost, Hostgator, and iPage, continues to deliver strong free cash flow for the company. Due to the scale and maturity of both our business and the hosting space generally, our top line growth has come down in this business. In order to maintain an overall healthy growth rate into the future, our strategy has been focused on extending our reach and bringing subscribers to platform through new gateway products such as site builder. Additionally with the acquisition of Constant Contact earlier this year, we added an important product set as we expand our solutions to other adjacencies targeted at small businesses.

First, starting with Constant Contact, the business delivered better than expected results during the quarter. Profitability was higher than expected as integration progressed ahead of plan. Upon acquisition of Constant Contact, we made the deliberate decision to run this business for steady, but slower, top line growth. We continue to take this approach, and we see excellent lifetime value trends for Constant

Contact subscribers. We will continue to invest behind this brand for sustained contribution both strategically and financially over the long term.

In our flagship business, our 2016 marketing plan called for flat spend relative to 2015. Given the larger base of subscribers, this leads to a lower-growth core business in which the bulk of gross subscriber additions serves to replenish the natural churn of the business. Our 2016 plan in this core business is to focus more on retention programs while maintaining the same level of investment in order to maximize free cash flow. We see attractive average revenue per subscriber opportunities over time and consistent yields in this business, and it continues to drive scale and opportunity to fund investments for the future.

Turning now to our gateway products, which include our site builder product as well as others in the portfolio. This year, our new investments have focused primarily on this set of products—for example, in 2016 we expect a drag of \$40 million to our previously defined adjusted EBITDA from channel spend alone. Strategically, these products expand our subscriber funnel and reach. Financially, we expect these products to drive future growth and profitability. Through the first half of the year, as we ramped marketing in these newer products, subscriber acquisition costs and initial churn were higher than expected. As we sought to balance investment yields within this portfolio, our decisions resulted in sub-optimal contribution and greater than expected spend in H1. We expect the second half of the year to be a period of transition to more calibrated marketing spend. We continue to believe these products are an important component of our overall strategy and will continue to refine our efforts.

We are streamlining operations and teams responsible for managing our growth portfolio, and in July, we consolidated most of these products into one entity and increased our ownership in WZ UK, Ltd. to 86.4%. We believe this will provide us more central management for this portfolio as it scales.

Another initiative supporting our efforts for longer-term growth and expansion of our gateway products is the integration of the AppMachine and Webzai teams as we continue to focus on product strategy. Subsequent to quarter end, we purchased the remaining equity in AppMachine BV, the Dutch developer of mobile app solutions from which our Impress.ly site builder was developed. In 2014, we made an initial equity investment of \$15.2 million for 40% of the company. In July, we purchased the remaining 60% for \$22.5 million, payable over a four year period. The fiscal 2016 payment is approximately \$5.5 million. With this acquisition, we will combine Webzai development with the team in Holland. We believe these are best in class developers for these innovative products, and combining will only enhance our capabilities.

**Slide 6** The impact of our lower than expected returns on marketing investment in our growth products in H1 will have a negative impact to H2 and our full year guidance. We believe that H2 will be a transition period as we work to balance our marketing spend and yields across the entire portfolio. We expect to provide more visibility into 2017 by the end of the year.

Despite the disappointment at lowering our expectations in the near-term, we are pleased at the progress we are making overall to fortify Endurance. While it's too early to provide detail on 2017, for the remainder of the year we expect to continue to refine and realign our marketing plans. We see steady performance and contribution from our flagship brands, which allow us to fuel investment in our growth

brands. Over the longer-term, we expect these growth brands to provide increasing contribution to profit as well as drive top line growth. Constant Contact has exceeded our expectations, which contributes additional flexibility in our investment decisions. All of this supports our long-term strategic vision in addition to financial returns. Our efforts combine to provide opportunity for continued growth in adjusted EBITDA and strong free cash flow generation. Whether to fund repayment of debt, invest in the future, or other uses, we believe our focus and execution will provide flexibility in our capital allocation decisions.

**Slide 7** We continue to see much opportunity for Endurance businesses, and as I think about our accomplishments and efforts, I am pleased with the steps we are taking toward our path from a hosting provider to becoming a platform for online solutions. We continue work toward a future in which we serve SMBs through a seamless experience, enabled by an integrated platform, irrespective of the product or service through which they come to us.

With that, I will turn the call over to Marc Montagner, our chief financial officer.

#### **Marc Montagner, Chief Financial Officer**

**Slide 9** Thank you Hari. Before I review Q2 results, I'd like to review important changes in our disclosed metrics. In light of the SEC communication to all issuers in its Compliance and Disclosure Interpretations (C&DIs) issued in May, and in an effort to simplify some of our non-GAAP measures, starting in Q2, we will be making changes to the non-GAAP financial information that we report. As noted in detail here on slide 9, we will make the following changes starting in Q2 2016:

- We will only report and refer to GAAP revenue instead of adjusted revenue.
- ARPS will now be based on GAAP revenue versus adjusted revenue in the past.
- In our revised adjusted EBITDA definition, we will no longer add back changes in deferred revenue. We will also include the negative impact of the following items which were previously excluded: integration expenses, legal advisory expense, the impact of the reduced fair value of deferred domain registration costs, and (gain) loss on sale of assets.
- Finally, in our revised adjusted EBITDA definition, we will continue to exclude the impact of share based compensation, transaction expenses, restructuring, (gain) loss of unconsolidated entities, and impairment charges.

For Q2 only, we will provide both the previous metrics and the revised metrics. In addition to these changes, going forward we will provide a calculation of bank adjusted EBITDA as defined in our credit agreement. Please also refer to our appendix slides where we have provided reconciliations for the updated definitions.

**Slide 10** Now, turning to Q2 results. GAAP revenue was \$290.7 million, reflecting 6% growth year over year versus pro forma Q2 2015. Adjusted EBITDA was \$76.9 million reflecting 13% growth year over year versus pro forma basis Q2 2015, while our previously defined adjusted EBITDA was \$93.8 million. The difference between adjusted EBITDA and our previously defined adjusted EBITDA consisted of approximately \$11.9 million in net change in deferred revenue, \$4.0 million in integration expense, \$1.5 million in legal advisory

expense, a \$(0.3) million impact on the reduced fair value of domain registration costs and a \$(0.2) million gain on sale of assets.

**Slide 11** On a reported basis, GAAP cash flow from operations was \$53.8 million, reflecting growth of 17% versus Q2 2015. Capex was \$12.3 million, or 4.2% of GAAP revenue, and free cash flow grew 10% year over year from Q2 2015 to \$41.6 million.

**Slide 12** Slide 12 shows GAAP revenue and adjusted EBITDA for the last eight quarters. Again, please refer to the appendix for reconciliation to our previous adjusted EBITDA numbers. We are showing this historical financial data in order to facilitate an apples to apples comparison.

**Slide 13** On slide 13 you can see that our total subscriber number increased by approximately 35,000 subscribers from Q1 2016 to Q2 2016. We are seeing lower increases primarily as a function of marketing decisions related to our growth brands and the associated lower than expected marketing returns. As we recalibrate marketing efforts, we expect lower to flat net subscriber increases through the remainder of the year.

On a combined company basis, average revenue per subscriber (ARPS) for Q2 was \$17.74. ARPS for standalone Endurance was \$13.32, reflecting a year over year decrease of 6%, while Constant Contact ARPS was \$56.68. Drivers of the decrease in standalone ARPS year over year include product mix shift and lower contribution to revenue from co-marketing funds and domain monetization.

As we look at the different components of revenue, during Q2, hosting services and add-ons such as security, mobile optimization, and e-commerce integration now represent approximately 48% of our revenue. Email marketing accounts for approximately 33%, domain registrations approximately 13%, and the remainder of the business, such as domain monetization and co-marketing funds, accounts for approximately 6%.

**Slide 14** Now that we have reviewed our financial and operating metrics, let's turn to our updated guidance for 2016. We are presenting our guidance for full year 2016 on a closing date basis, with Constant Contact results included since February 10, 2016, the day after the closing. We are also presenting guidance on a combined pro forma basis, as if the Constant Contact acquisition had closed on January 1, 2016. This guidance assumes no incremental M&A.

Our updated guidance includes our change in outlook, as well as the impact of our move to GAAP revenue and the changes in our definition of adjusted EBITDA. Going forward, our guidance will be based on GAAP revenue, adjusted EBITDA under our revised definition, and free cash flow defined as operating cash flows less capex and capitalized leases. For full year 2016, on a closing date basis, we now expect the following:

- Starting with our original adjusted revenue guidance, we are reducing our outlook by approximately \$60 million from \$1.175 billion to \$1.115 billion. Our move to GAAP revenue guidance reduces this further by approximately \$25 million for purchase accounting and other adjustments. Our updated guidance now calls for GAAP revenue of approximately \$1.090 billion.

- For adjusted EBITDA, our original guidance, based on our previous definition, was \$400 million. Expectations to original guidance are lowered to \$370 million. After eliminating items no longer a part of our adjusted EBITDA definition, our adjusted EBITDA expectation is approximately \$270 million for 2016.
- Free cash flow, defined as GAAP cash flow from operations, less capex and capitalized leases, is now expected to be approximately \$100 million. Note that this figure reflects the negative impact on free cash flow of approximately \$65 million in transaction, integration, legal advisory, and restructuring expenses, the majority of which are associated with the Constant Contact transaction. Free cash flow excluding these expenses would be approximately \$165 million for 2016, which we believe sets up a healthy run rate for 2017.

**Slide 15** Looking at guidance on a combined pro forma basis:

- After the reduction in outlook of approximately \$60 million to adjusted revenue and changes due to purchase accounting and the timing of the close of the Constant Contact transaction, we now expect pro forma GAAP revenue of \$1.130 billion.
- Our implied adjusted revenue growth rate from 2015 to 2016 is now reduced to approximately 5% versus prior expectation of 10%.
- Our previous adjusted EBITDA expectations are lowered by \$30 million to \$375 million from \$405 million. After reductions related to our revised definition of adjusted EBITDA, we now expect adjusted EBITDA of \$275 million on a pro forma basis.
- For 2016, the items no longer included in our revised definition lead to a difference of approximately 25% between our adjusted EBITDA of \$275 million and our previous adjusted EBITDA. Over time, we expect this difference to trend to the lower teens over time.

**Slide 16** We ended the quarter with \$2,078 million in total senior debt. Including other deferred obligations and capital leases, total debt at the end of the period was \$2,139 million. We finished Q2 2016 with approximately \$79 million of cash on the balance sheet, including restricted cash. During Q2 2016, we paid down approximately \$25 million of our senior secured debt.

**Slide 17** Going forward we will provide our investors with a calculation of bank adjusted EBITDA as defined in our credit agreement.

Our senior debt covenants are based on last twelve month bank adjusted EBITDA, which in Q2 was \$398.7 million. Our senior debt leverage ratio was 4.2x bank adjusted EBITDA at Q2. We remain well below our maximum allowed leverage of 6.5x. Our focus is still on delevering our balance sheet and using our free cash flow to pay down our debt.

In conclusion, we continue to balance near and long term goals. Our updated guidance calls for a strong year, and we continue to make investments for the future of the company. Increasing free cash flow is a priority. Our free cash flow guidance for 2016, excluding the transaction, integration, legal advisory and restructuring expenses, is expected to be approximately \$165 million, establishing a strong run rate for the future. Now I'd like to turn the call back to Hari for a few closing comments.

**Slide 18** Thanks Marc. We look at the business over a multi-year period, and as such, have placed importance on continuing to invest toward sustainable growth. We expect revenue of over \$1 billion this year, and with almost 5.5 million subscribers, have reached considerable scale, which allows us to drive significant free cash flow generation. We believe that our investment decisions this year, as in the past, will augment our position in the marketplace and fortify our foundation. We are proud of our continued efforts to build a long-standing business and provide valuable solutions to help small businesses as they grow. Thank you for listening today, and now I'll turn the call back to the operator to begin Q&A.