



The following prepared remarks are an excerpt from the 2017 Fourth Quarter and Full Year 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. These prepared remarks should be read in conjunction with Endurance's 2017 Fourth Quarter and Full Year Earnings Presentation slides, which are available at the same location.

These prepared remarks contain 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 2018; expectations regarding our planned investment initiatives during 2018 and beyond; the ability of these planned investments to strengthen our brands over time, improve lifetime revenue, drive future stakeholder value, and support our long-term growth; the growth opportunities in our addressable markets; our ability to generate growth in our business, provide value to our customers, carry out our operating plan, simplify our business and operate our assets effectively at scale; our plans to de-emphasize our non-strategic brands; expectations regarding payment of cash taxes in 2018; expectations regarding declines in our total subscribers; our planned uses of cash in the future; our plans to pay down debt during 2018 and reduce our leverage over the medium-term; 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," "feels," "seeks," "future," "strive," "see," "estimates," "should," "may," "continue," "confident," "positions," "committed," "looking to," "scheduled," "long-term," 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 financial guidance may differ from expectations (including due to our payment of any settlements of pending legal proceedings); the possibility that our planned investment initiatives will not result in the anticipated benefits to our business; the possibility that we will continue to experience decreases in our subscriber base; an adverse impact on our business from litigation or regulatory proceedings; an adverse impact on our business from our substantial indebtedness and the cost of servicing our debt; the rate of growth of the Small and Medium Business ("SMB") market for our solutions; our inability to grow our subscriber base, 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; 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 September 30, 2017 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). 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 these 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 adjusted EBITDA, free cash flow, and bank adjusted EBITDA. Definitions of these non-GAAP financial measures and reconciliations to their comparable GAAP measures are included in our 2017 fourth quarter and full year earnings release and presentation, each dated February 13, 2018, and available in the investor relations section of our website at www.endurance.com.

Angela White, VP, Investor Relations

Good morning. It is my pleasure to welcome you to our fourth quarter and fiscal year 2017 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 in the investor relations section of our website at 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 November 4, 2017 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 adjusted EBITDA, free cash flow (FCF), and bank adjusted EBITDA. 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.

With that, I will turn the call over to Jeff Fox, our president and CEO.

Jeffrey H. Fox – President and CEO

Slide 5 Thanks Angela and good morning. I'm pleased to report our fiscal 2017 results. Revenue reached \$1.18 billion and adjusted EBITDA \$351 million. Cash flow from operations was \$201 million, and free cash flow grew 35% year over year to \$151 million. We ended the year with over 5 million subscribers on platform at an average revenue per subscriber of \$18.82.

Slide 6 Before turning to our 2018 plan, I'd like to restate a couple of items I emphasized on our third quarter call. First, we have a set of market-leading assets with strong cash generation potential, as demonstrated by our results in 2017. Second, our near-term focus is on simplifying our operations and integrating our capabilities to operate as a scale platform with multiple brands and services.

Since the call, we have made significant progress as a leadership team, including locking down our bottoms up integrated operating plan. As owner-operators, we have a plan that increases investment in the near term in order to position our company for a return to growth.

Slide 7 In our email marketing business, we have a strong brand with Constant Contact. Since the acquisition, we have achieved synergies that have contributed to increased profitability while the business has continued to deliver top line growth. As noted on the last call, our plan is to increase investment in product development, international expansion, and improvement to the customer experience. We see an opportunity to address a broader set of customer needs through our product enhancements, an expanded set of third-party solutions, and increased investment in this strategically valuable brand.

In our web presence business, we will continue to focus on our Bluehost and HostGator brands, the largest of our hosting assets. We began to narrow our focus to these brands in 2017 through more disciplined lifetime value-based customer acquisition spend. This year we will continue our focus through improvements in our value proposition through better user experience, capabilities, and support. We are also working hard to provide simplified solutions through our Bluehost Wordpress offering, and to deliver a more seamless site builder solution on HostGator. We believe that these investments will improve lifetime revenue, customer satisfaction, and build positive brand momentum.

In our domain segment we will invest to enhance and integrate assets acquired over the past several years. We know that domains are an important path to establishing a web presence, and our 2018 plan is to better position our company for this opportunity. With over 12 million domains under management, we have the scale to compete more effectively. Specifically, we will invest to improve the customer journey from front of site to domain management to position this segment for long-term growth.

Finally, this year's plan involves continued focus on simplification of the operating environment of our non-strategic brands. You will recall that last year we moved certain hosting brands and gateway products to harvest mode. Given the subscriber losses, these assets are creating a near-term top line headwind, despite significant profitability. Our 2018 plan is intended to use the profit from these assets to reinvest in positioning our market-leading assets for long-term value creation.

We have taken a long-term view in setting out our 2018 plan. This is a multi-year journey, and we have the talent, the assets, the scale, and the vision to build out our position as an active and leading operator in the SMB space. The entire team and I are excited to execute to our plan and create value over time for all stakeholders. With that, I'll turn the call over to Marc Montagner, our CFO.

Marc Montagner, Chief Financial Officer

Slide 8 Thank you Jeff.

Slide 9 I am pleased to review our full year results.

- GAAP revenue for fiscal 2017 was \$1.177 billion, a 6% increase over 2016 reported revenue;
- Adjusted EBITDA was \$350.8 million, a 22% increase over 2016; and
- Free cash flow, defined as cash flow from operations, less capitalized expenditures and capitalized leases, was \$150.8 million, or an increase of 35% over 2016.

We are now reporting on three different segments of our business: web presence, email marketing, and domains. In fiscal 2017:

- Web presence revenue totaled \$642.0 million.
- Email marketing revenue totaled \$401.3 million for the year.
- Our domains segment was \$133.6 million.

Turning to adjusted EBITDA by segment, in fiscal 2017:

- Web presence contributed \$158.2 million with a 24.6% margin.
- Email marketing contributed \$185.9 million with a 46.3% margin.
- Domains contributed \$6.8 million to adjusted EBITDA, with a 5.1% margin.

The year over year increase of 0.9% in web presence margin from 2016 to 2017 was due primarily to lower marketing spend. In the email marketing segment, the 10.7% year over year increase in margin from 2016 was driven mostly by higher revenue, lower costs, and some additional direct costs that were allocated to the web presence and domain segments throughout the year. Adjusted EBITDA margin in the domain segment was lower by 8.4% this year mostly due to higher operating expense, higher domain registration costs, and higher marketing spend, mostly in our APAC operations. In 2017, adjusted EBITDA in the domains segment excluded the impact of approximately \$19 million related to a reduction in value of our domain name assets portfolio and approximately \$12 million to reduce goodwill associated mostly with our domain assets in India.

GAAP cash flow from operations for fiscal 2017 was \$201.3 million. Capex in fiscal 2017 was \$50.5 million, or 4.3% of GAAP revenue. Free cash flow was \$150.8 million. Cash from operations and free cash flow were negatively impacted by approximately \$17 million in restructuring costs related primarily to streamlining of our operations throughout the year.

Slide 10 Turning to Q4 2017 fiscal performance:

- GAAP revenue was \$294.2 million;
- Adjusted EBITDA was \$94.4 million; and
- Free cash flow, defined as cash flow from operations, less capitalized expenditures and capitalized leases, was \$59.7 million.

Slide 11 Turning now to operating metrics, we finished the fiscal year with 5.051 million subscribers. Total subscribers decreased by approximately 320,000 over the last 12 months, primarily due to subscriber losses from our non-strategic brands. Combined average revenue per subscriber (ARPS) was

\$18.82, an increase of 7% from 2016. ARPS in the web presence segment for the year was \$13.29. In email marketing, ARPS was \$62.92 for the year, and in domains, ARPS was \$16.98 for the year.

Slide 12 Total subscribers decreased by approximately 71,000 in the fourth quarter. Combined average revenue per subscriber (ARPS) was \$19.28 in Q4, an increase of \$0.25 from the Q3 2017.

Slide 13 Turning now to guidance. Our expectations for the full year 2018 incorporate incremental investments in web presence, email marketing, domain, and functional operations. For 2018, we expect:

- GAAP revenue of \$1.140 to \$1.160 billion;
- Adjusted EBITDA of \$310 to \$330 million; and
- Free cash flow of approximately \$120 million, before payment of potential settlements of pending legal proceedings.

We expect capital expenditures of approximately \$55-\$60 million in 2018. We intend to use our excess free cash flow to pay down approximately \$100 million of the principal balance of our term loan.

Our 2018 guidance incorporates the expected impact of recent changes in tax legislation. For Endurance, a number of benefits such as the lower corporate tax rate of 21%, the elimination of the AMT, as well as an increase in deductions for capex and lower tax on foreign-derived income will be offset by changes related primarily to lower interest expense and executive compensation deductions. We ended 2017 with approximately \$157 million of NOLs. Although we have not completed our full analysis of the new tax legislation and full U.S. Treasury Department guidance has not been issued, we do not expect to pay any significant U.S. federal cash taxes in 2018.

Slide 14 We ended 2017 with \$1,956 million in total senior debt. Including other deferred obligations and capital leases of \$23 million, and total cash on the balance sheet of \$69 million, total net debt at the end of the period was \$1,910 million. Our revolving credit facility remains at a zero balance and we maintain an available credit balance of \$165 million.

During the year, we paid \$100.4 million in debt re-payment, and also extinguished \$30 million of deferred considerations and related payments. The balance of our deferred considerations is now \$8 million.

Turning now to our calculation of bank adjusted EBITDA as defined in our credit agreement, our senior debt covenants are based on last twelve-months bank adjusted EBITDA, which was \$366.8 million in Q4 2017. Our senior debt leverage ratio was 4.24x bank adjusted EBITDA at Q4 and year end. We remain well below our maximum senior secured leverage ratio of 6.25x. We are still committed to reducing our secured debt to bank adjusted EBITDA leverage ratio to less than 4x in the medium term.

Our expectation is that investment will be focused on operating at scale and providing value to our customers. We also expect to use excess free cash flow to continue to pay down debt, and will seek to balance our goals accordingly. Thank you for joining us today, and now I'll turn the call back over to Jeff to close out the call.

Jeffrey H. Fox – President and CEO

Slide 15 In closing, we have a valuable set of market-leading assets, and a focus on investing to return to growth. The team and I look forward to executing our plan in 2018, and building this multi-brand, multi-service platform to operate at scale. Thank you for joining us this morning. Now I'll turn the call back to the operator to begin Q&A.