Rightside

Rightside First Quarter 2017 Earnings Call

Thanks Brinlea and welcome to our shareholders, other investors and analysts joining our call.

Today we announced our results for the first quarter of 2017, reporting GAAP revenue of $3.2 million for our Registry business, representing 20% growth on a year-over-year basis. Our retail registrar, Name.com, recorded revenue of $7.3 million, up 3% year-over-year. Gross margin was 41%, up 470 basis points year-over-year, as we grew our mix of higher margin registry services revenue and continued to realize the benefit of our profitability initiatives.

Operationally, I'm also pleased to report that we have had a smooth transition following our divestiture of eNom in January, with our Transition Services Agreement with Tucows proceeding as expected. As our obligations regarding the TSA conclude, we are still making progress towards reducing the overall cost structure.

Now, let me take you through some results and recent activities with respect to the areas of strategic focus for our Registry business, which I introduced on the last call.

First, premium names demonstrated success with the sale of multiple high-priced platinum names, including video.games, and several other .live names. For the quarter, our cash revenue for new premium registrations, premium renewals and platinum name sales all beat our internal targets. Our biggest registrar partners continue to experience strong results with our premium names – and their merchandising efforts are improving as well. We're working hard to get these registrars, and some new partners, set up to sell our platinum names through their sales teams and online marketplaces. For the quarter, premium names accounted for approximately 40% of the cash revenue of our registry. The Rightside portfolio of new generic Top Level Domains is uniquely positioned to take advantage of the opportunity for premium names, and we'll continue focusing a significant portion of our sales and marketing efforts in this area.

Our second strategic focus is the corporate brand registrars who help the biggest brands acquire and manage their domain names. In Q1, we rolled out marketing programs for new products that make it easier and more cost effective for large companies to acquire names in Rightside's portfolio of new gTLDs. Our emphasis on this segment of our customer base is starting to produce incremental gains.

And finally, China is our third area of strategic focus, I recently returned from a trip to China and we have a lot to share on our efforts in this important region. First, we've started to hire in-country personnel to help us navigate the local market and maximize the relationships we've developed with our many Chinese registrar partners. Second, while it continues to take longer than expected, we believe we are very close to receiving regulatory approval from the Chinese government for our first few new gTLDs, which should lead to greater distribution and consumption in the back half of the year. And lastly, in our meetings with key registrars we learned there is a change in focus from driving unit volumes to driving gross margins, which should prove beneficial to Rightside given our approach to the market with both premium names and higher margins for standard registrations.

In general, our Registry business continues to work diligently across the registrar partner base with a number of campaigns aimed at growing the base of registrations across our portfolio. With several of our biggest partners, we experienced new registration volume gains that we expect will convert into attractive lifetime value from these newly acquired customers

Shifting gears now to our retail registrar, Name.com, where we directly benefit from the vertical integration of this registrar property with our registry platform. Name.com continues to be a strong performer across the board for Rightside's new gTLDs, with cash revenue associated with our registry domains nearly doubling on a year-over-year basis. Our profitability initiatives and increasing emphasis on new gTLDs and Value-Added-Service offerings have helped to improve overall margins for Name.com. However, registration growth rates remain challenged industry wide and Name.com revenue growth has been impacted.

Turning now to our Aftermarket business, we reported better than expected revenues of $4.3 million for the quarter as certain third party syndication partners stepped up their activity on our platform. However, this area of our business will continue to be soft compared to last year and it experiences significant fluctuations that are challenging to control or predict.

Before I turn things over to Tracy, let me update you on the share repurchase program that we announced on last quarter's conference call. As of last week, we have repurchased approximately 320,000 shares of our common stock for $3.0 million dollars and we have $47.0 million dollars of capacity remaining available under the current plan. Our strong balance sheet allows us the ability to execute this repurchase program while retaining the flexibility to make appropriate investments and run the business for the long term.

In summary, we are excited about the progress we made this quarter and the opportunities ahead. Looking into 2017, we will continue to execute on our key strategic initiatives – selling premium high ASP domain names, focusing on top tier brands in our registrar channel and continuing our expansion efforts in China.

Now, let me turn it over to Tracy to take you through the numbers for Q1.

Thanks, Taryn. I'll begin today by providing an overview of our financial results for the first quarter ended March 31, 2017, followed by the key metrics. As a reminder all financials will be reported on a continuing operations basis to reflect the recent sale of eNom.

Starting with revenue.

Total revenue in the first quarter was $14.4 million.

Our Registry services revenue increased 20% to $3.2 million in the first quarter, as we recognized revenue on a growing base of domains registered on our owned and operated gTLDs.

Our Registrar services revenue increased to $7.3 million on an increasing base of domain registrations as well as a 1% increase in average revenue per domain as we continue to realize the benefit of our pricing optimization efforts implemented in 2016 and drive an increase in VAS attach rates.

As we've previously communicated, we continue to see YOY declines in our aftermarket business related to the lower margin third party parking syndication business. However, Aftermarket and other revenue of $4.3M was better than the $2.5 to $3.5M we had projected for Q1. As Taryn noted earlier, this area of our business experiences significant fluctuations that are challenging to control or predict.

For the first quarter of 2017, cost of revenue decreased to $8.5 million. Gross margin of 41% improved 470 basis points over the prior year period as we've focused on the growth of our higher margin registry business and benefited from our pricing optimizations launched in 2016.

Looking ahead to the remainder of 2017, we expect further improvements in our gross margin as we continue driving an increasing mix of the higher margin registry services revenue and further benefit from our pricing optimization efforts.

Sales and marketing expenses decreased 10% in the first quarter to $1.9 million as we shifted more of the marketing dollars to channel rebate programs. As a reminder, these rebates are net against revenue rather than accounted for in sales and marketing expense.

Technology and development expenses in the first quarter decreased 24% to $2.4 million as we benefited from reducing the infrastructure, resources and technology costs needed to support our platform.

General and administrative expenses in the first quarter were flat at $4.6 million.

We remain focused on restructuring our core operations as our TSA with Tucows winds down and we expect further savings in the back half of the year.

Total Adjusted EBITDA from continuing operations for the first quarter was negative $945K, improving from a negative $2.2M in the prior year period.

Now I will move onto our key metrics.

End of period registry domains totaled approximately 590K, up 26% YOY. Average registry services revenue per domain was $22.01in the first quarter, down 9% from the prior year. The decline in ARPD was primarily driven by a decrease in launch related revenue and a YOY increase in the use of rebates as opposed to traditional marketing expense.

The final overall registry renewal rate for the fourth quarter of 2016 was 59% compared to 53% for the same quarter in 2015. Registry renewal rates are not fully measurable until 45 days after the end of the quarter however we estimate that the Q1 17 renewal rate will be approximately 47% compared with 56% in Q1 2016. As noted last quarter, we are focused on building a healthy and high quality Registry business, but we have and will continue to test different marketing initiatives geared at increasing our Year 1 registration flow. These activities have driven down overall renewal rates, but we have continued to see strong renewal rates in our Year 2 renewals which are approximately 75% to date.

Turning to our registrar business end of period registrar domains totaled 1.9 million, up 5.6% YOY.

Average registrar services revenue per domain increased to $15.55 compared to $15.39 primarily due to our profitability initiatives as well as an increase in value added services.

Finally, the registrar renewal rate for the first quarter was 68.6% down from 71.8% in Q1 of the prior year as we saw an increasing mix of year 1 registrations and promotional units which have a lower renewal rate.

On to liquidity and capital resources.

As of March 31, 2017 our cash, cash equivalents and available for sale securities was approximately $83 million, up from $32 million as of December 31, 2016. There were a few factors that significantly impacted our cash balance this quarter. First, we recognized approximately $72 million of cash from the sale of eNom after payment of deal related expenses. Second, we fully repaid the $12.8 million outstanding on our revolving credit facility and a $1M capital lease obligation. Finally, we used $1.6 million to buy back stock under our share repurchase program.

We are reiterating our previously provided guidance and we expect the following:

- Total revenue of $58 to $62 million
- Total Adjusted EBITDA of around break-even for the full year with a return to positive adjusted EBITDA in the fourth quarter

In summary, we have a strong balance sheet with the ability to execute the stock buyback program. We continue to improve our financial profile with expanding margins and a focus on driving growth in our higher margin core registration services and delivering shareholder value.

That concludes our prepared remarks. I will now turn the call back to the operator to take questions.