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Verisign

Q1 2015 Earnings Conference Call

April 23, 2015

Safe Harbor Disclosure

Statements in this announcement other than historical data and information constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. These statements involve risks and uncertainties that could cause our actual results to differ materially from those stated or implied by such forward-looking statements. The potential risks and uncertainties include, among others, the uncertainty of the impact of the U.S. government's transition of key Internet domain name functions (the Internet Assigned Numbers Authority ("IANA") function) and related root zone management functions, whether the U.S. Department of Commerce will approve any exercise by us of our right to increase the price per .com domain name, under certain circumstances, the uncertainty of whether we will be able to demonstrate to the U.S. Department of Commerce that market conditions warrant removal of the pricing restrictions on .com domain names and the uncertainty of whether we will experience other negative changes to our pricing terms; the failure to renew key agreements on similar terms, or at all; the uncertainty of future revenue and profitability and potential fluctuations in quarterly operating results due to such factors as restrictions on increasing prices under the .com Registry Agreement, changes in marketing and advertising practices, including those of third-party registrars, increasing competition, and pricing pressure from competing services offered at prices below our prices; changes in search engine algorithms and advertising payment practices; the uncertainty of whether we will successfully develop and market new products and services, the uncertainty of whether our new products and services, if any, will achieve market acceptance or result in any revenues; challenging global economic conditions; challenges of ongoing changes to Internet governance and administration; the outcome of legal or other challenges resulting from our activities or the activities of registrars or registrants, or litigation generally; the uncertainty regarding what the ultimate outcome or amount of benefit we receive, if any, from the worthless stock deduction will be; new or existing governmental laws and regulations; changes in customer behavior, Internet platforms and web-browsing patterns; system interruptions; security breaches; attacks on the Internet by hackers, viruses, or intentional acts of vandalism; whether we will be able to continue to expand our infrastructure to meet demand; the uncertainty of the expense and timing of requests for indemnification, if any, relating to completed divestitures; and the impact of the introduction of new gTLDs, any delays in their introduction, the impact of ICANN's Registry Agreement for new gTLDs, and whether our new gTLDs or the new gTLDs for which we have contracted to provide back-end registry services will be successful; and the uncertainty regarding the impact, if any, of the delegation into the root zone of over 1,300 new gTLDs. More information about potential factors that could affect our business and financial results is included in our filings with the SEC, including in our Annual Report on Form 10-K for the year ended Dec. 31, 2014, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. Verisign undertakes no obligation to update any of the forward-looking statements after the date of this announcement.

Agenda

Introduction

Registry Services Highlights

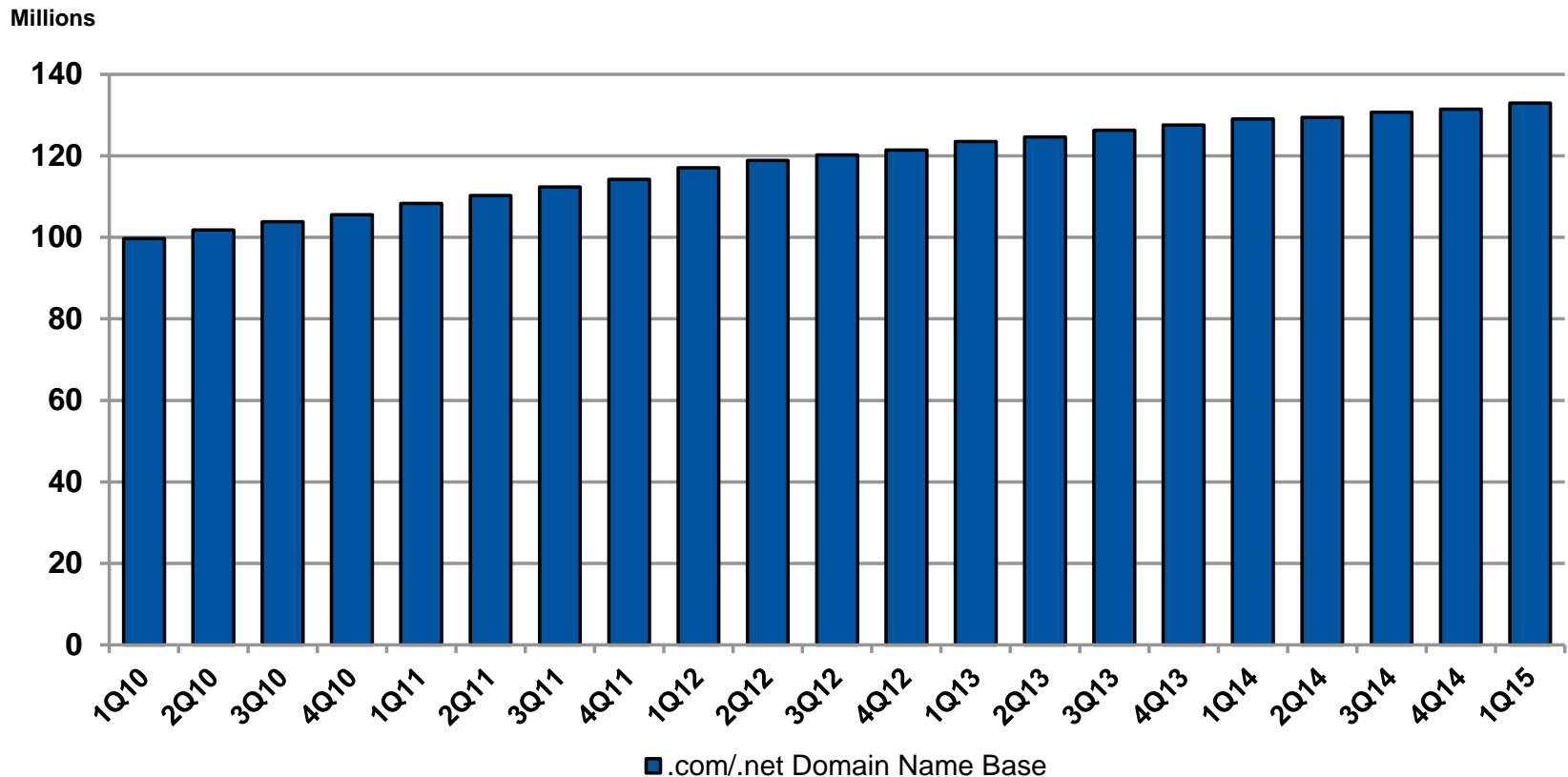
Financial Performance / Guidance

Closing / Q&A / Annex

Registry Services Highlights

Domain Name Base⁽¹⁾ at 133.0 Million Names, Up 3.1% Y/Y

117.9 Million .com Names and 15.1 Million .net Names



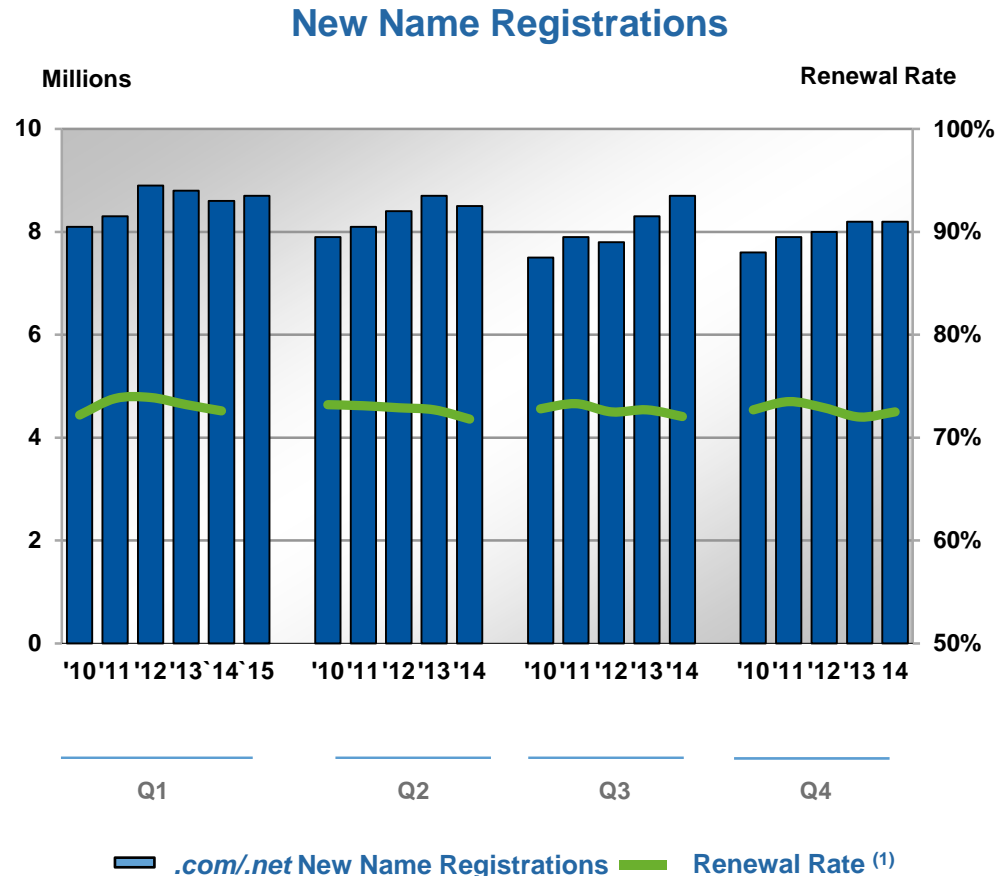
1) The domain name base as presented here for all periods reflects our new definition of the domain name base which is the active zone plus the number of domain names that are registered but not configured for use in the respective Top-Level Domain zone file plus the number of domain names that are in a client or server hold status. This data is therefore not comparable to previous earnings presentations, where we defined the domain name base differently.

Registry Services Highlights

8.7 Million New Name Registrations in Q1 '15

Compared with 8.6 Million in Q1 '14

- Q4 '14 renewal rate 72.5%
 - Renewal rate determined 45 days after end of quarter
 - Q1 '15 renewal rate expected to be approximately 73.5%⁽¹⁾⁽²⁾ compared with 72.6% in Q1 '14
- Net new additions for Q1 '15 were 1.51M names
- 28.3M names expiring in Q2 '15 vs. 27.5M in Q2 '14
- Total Domain Names for Q2 '15 expected to add between 0.3M to 0.8M net names⁽²⁾



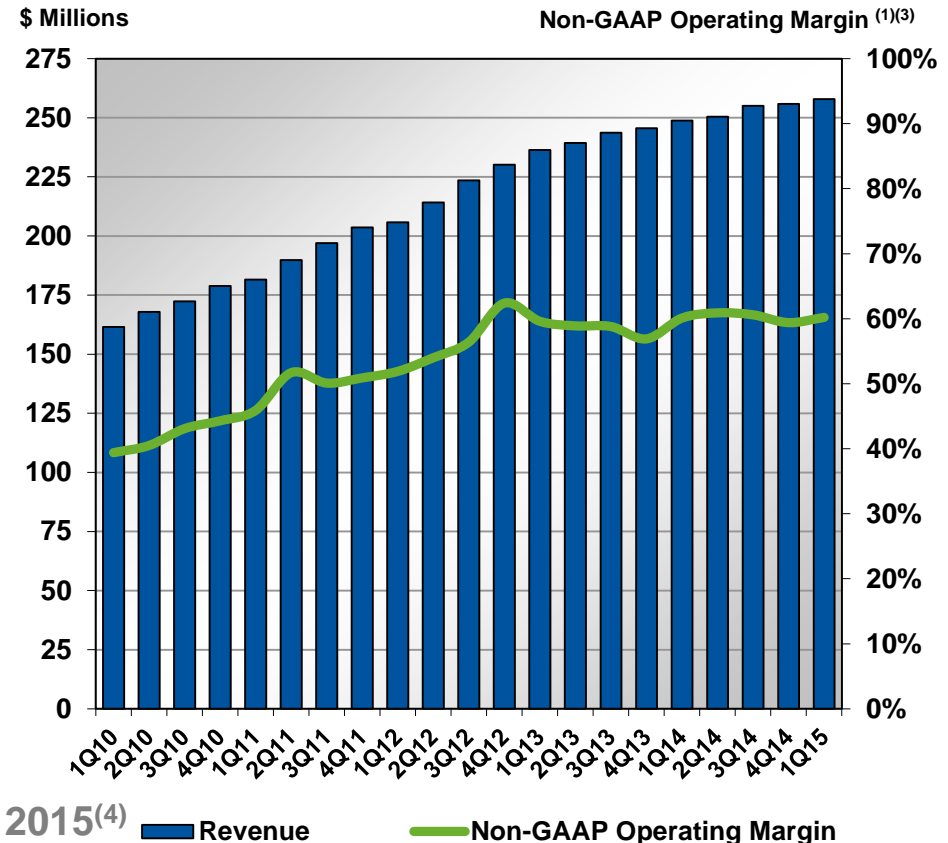
1) Renewal rates are not fully measurable until 45 days after the end of the quarter.

2) This guidance is based on historical seasonality and current market trends.

Q1 2015 Financial Performance

- Revenue of \$258M, up 3.9% y/y
- GAAP operating margin of 55.8%
- GAAP diluted EPS of \$0.66
- Non-GAAP operating margin of 59.7%⁽¹⁾
- Non-GAAP diluted EPS of \$0.74⁽¹⁾
- Operating Cash Flow of \$133M
- Free Cash Flow of \$126M⁽²⁾
- 1,063 Full-Time Employees at March 31, 2015⁽⁴⁾

Revenue & Profitability



- 1) Please refer to "Summary of Non-GAAP Measures" for important information.
- 2) Free cash flow is defined as cash flow from operations adjusted to include excess tax benefits from stock based compensation, less capital expenditures. See Free Cash Flow Calculation in slide appendix for more detail.
- 3) Non-GAAP Operating Margin for the second quarter of 2011 included a pre-tax \$6 million accrued expense reversal, which is non-recurring in nature, which increased operating margin by 3.1 percentage points. The Non-GAAP operating margin for the fourth quarter of 2012 included certain non-recurring pre-tax benefits as described in the fourth quarter 2012 earnings news release which, together, increased the non-GAAP operating margin by 4.9 percentage points.
- 4) As of March 31, 2015, there were no interns.

Financial Guidance⁽¹⁾

- **2015 Revenue**
 - \$1.043 to \$1.057 billion, or approximately 3% to 5% growth; changed from \$1.040 billion to \$1.060 billion
- **2015 Non-GAAP Gross Margin⁽²⁾**
 - At least 80%
- **Full year 2015 Non-GAAP Operating Margin⁽³⁾**
 - 60% to 62%
- **2015 Non-GAAP Interest Expense and Non-GAAP Non-Operating Income, net⁽⁴⁾**
 - \$104 to \$110 million expense; changed from \$84 to \$90 million expense
- **2015 Capital Expenditures**
 - \$40 to \$50 million expense

- 1) Our guidance is based on expectations about the outlook of our business in addition to our financial projections for interest income and expense. Guidance for all non-GAAP figures is based on the definition of non-GAAP metrics noted below.
- 2) The most directly comparable GAAP measure to non-GAAP gross margin is GAAP gross margin. Non-GAAP gross margin is defined as revenues minus cost of revenues adjusted for stock-based compensation the total of which is then divided by revenues.
- 3) The most directly comparable GAAP measure to non-GAAP operating margin is GAAP operating income. Non-GAAP operating margin is defined as GAAP operating income adjusted for stock-based compensation which is then divided by revenues.
- 4) The most directly comparable GAAP measure to Non-GAAP Interest Expense is GAAP Interest Expense. Non-GAAP Interest Expense includes amounts accrued, if any, during the period for contingent interest payable resulting from upside or downside triggers related to the Convertible Debentures which is not included in GAAP Interest Expense, and excludes non-cash interest expense, which is included in GAAP Interest Expense. The most directly comparable GAAP measure to Non-GAAP Non-Operating Income, net is GAAP Non-Operating Income, net. Non-GAAP Non-Operating Income, net excludes unrealized gain/loss on contingent interest derivative on Convertible Debentures which is included in GAAP Non-Operating Income, net.

Q&A Annex

Capital Structure Overview

- **Debt instruments (4/2015)**

- \$200 million senior unsecured credit facility expires April 2020 (undrawn at 3/31/15)
- \$750 million 4.625% senior unsecured notes due May 2023
- \$500 million 5.25% senior unsecured notes due April 2025
- \$1.25 billion 3.25% subordinated convertible debentures due August 2037

- **Gross Debt to Adjusted EBITDA⁽¹⁾ Ratio = 3.7**

- Ratio assumes \$2.5 billion⁽²⁾ in debt outstanding as of end March 2015 and \$679 million trailing 12 month Adjusted EBITDA as of 3/31/15

- **\$1.9 billion in cash⁽³⁾ (3/31/15) of which \$901 million was domestic**

(1) Please refer to “Adjusted EBITDA Reconciliation” for important information.

(2) Reflects \$500 million 5.25% senior unsecured notes due April 2025, \$750 million 4.625% senior unsecured notes due May 2023 and \$1.25 billion 3.25% subordinated convertible debentures due August 2037.

(3) The \$1.9 billion held at March 31, 2015, includes cash, cash equivalents and marketable securities.

Convertible Debentures Dilution Calculation

- Basic inputs (as of March 31, 2015)
 - \$1.25 billion notional
 - 29.0968 shares per \$1,000 is the current conversion ratio
 - 36.37 million shares issuable (based on conversion ratio)
 - \$34.368 current conversion price

- Treasury stock method dilution calculation⁽¹⁾

$$\frac{(\text{Average Share Price} \times \text{Shares Issuable}) - \text{Notional}}{\text{Average Share Price}} = \text{Share Dilution}$$

- Q1 calculation (\$60.80 average share price during Q1 2015)

$$\frac{(\$60.80 \times 36.37\text{M shares}) - \$1.25\text{B}}{\$60.80} = 15.8\text{M shares}$$

1) Verisign uses the Treasury stock method to account for the dilutive effect of the convertible debentures.

Convertible Debentures Dilution Sensitivity

Verisign \$1.25 Billion Convertible Debenture (due 8/15/2037) Dilution
Sensitivity Based on Average Quarterly Stock Price

Quarterly share dilution under the Treasury stock method is calculated as follows:

$$\text{Share Dilution} = \frac{\text{(Average Quarterly Share Price} \times \text{Shares Issuable)} \text{ minus Notional}}{\text{Average Quarterly Share Price}}$$

Inputs as of Mar. 31, 2015

Notional	Conversion Ratio	Shares Issuable	Conversion Price	Q1 2015 Average Quarterly Stock Price
\$1,250,000,000	29.0968	36,371,000	\$34.368	\$60.80

Hypothetical Quarterly Average Stock Price Matrix

	Average Quarterly Stock Price (\$)	Quarterly Dilutive Share Count Impact (shares)
	Less than \$34.368	-
	\$36.00	1,648,778
	\$38.00	3,476,263
	\$40.00	5,121,000
	\$42.00	6,609,095
	\$44.00	7,961,909
	\$46.00	9,197,087
	\$48.00	10,329,333
Q2 2014 Average Stock Price	\$49.84	11,290,743
	\$50.00	11,371,000
	\$52.00	12,332,538
	\$54.00	13,222,852
Q3 2014 Average Stock Price	\$54.01	13,227,138
	\$56.00	14,049,571
Q1 2014 Average Stock Price	\$56.60	14,286,194
Q4 2014 Average Stock Price	\$57.76	14,729,726
	\$58.00	14,819,276
Q1 2015 Average Stock Price	\$60.80	15,811,789
	\$62.00	16,209,710
	\$64.00	16,839,750
	\$66.00	17,431,606
	\$68.00	17,988,647
	\$70.00	18,513,857
	\$72.00	19,009,889
	\$74.00	19,479,108
	\$76.00	19,923,632
	\$78.00	20,345,359
	\$80.00	20,746,000
	\$82.00	21,127,098

For stock prices above \$82, use the above calculation to determine the corresponding amount of dilution.

Note: Verisign uses the Treasury stock method to calculate the dilutive effect of the convertible debenture.

For further information see the notes to the consolidated financial statements, pages 75-77, on Form 10 K for the year ended December 31, 2014.

Subordinated Convertible Debentures

- Convertible debenture tax deductions (2010 through March 31, 2015) ⁽¹⁾

Subordinated Convertible Debentures Tax Deduction				
Year	Tax Deductible Interest by Year (\$mm)	Coupon Interest Accrued (\$mm)	Excess Deduction (\$mm)	
2010	122.6	40.6	82	
2011	129.7	40.6	89.1	
2012	137.4	40.6	96.8	
2013	145.8	40.6	105.2	
2014	154.9	40.6	114.3	
(Thru Mar. 31) 2015	41.2	10.2	31.1	

- Potential upside contingent interest payments ⁽²⁾

Potential Upside Contingent Interest Payments 50 bp on Market Value of \$1.25Bn Subordinated Convertible Debentures									
Subordinated Convertible Debenture Average Trading Price (as a % of par)	Less Than 150%	150%	160%	170%	180%	190%	200%	210%	220%
Semi-Annual Contingent Interest Amount (\$mm) on \$1.25 billion notional	\$ --	\$4.7	\$5.0	\$5.3	\$5.6	\$5.9	\$6.3	\$6.6	\$6.9

- Amounts do not include the extraordinary contingent interest payments that the Company made in 2010 and 2011, which were also tax deductible in the amount of cash interest paid.
- Beginning with the semi-annual interest period commencing August 15, 2014, upside contingent interest payments started to accrue as the upside trigger was met.
- Average trading price of the debentures is determined by averaging the secondary market bid quotations for the debentures for the 10 trading days immediately preceding the first day of each semi-annual interest period. The upside trigger is met when the average trading price is equal to or greater than \$1,500 per \$1,000 principal amount of the debentures.

Summary of Non-GAAP Measures

Non-GAAP measures, other than adjusted EBITDA, are determined by:

- Excluding
 - Stock-based compensation;
 - Unrealized gain/loss on contingent interest derivative on Convertible Debentures;
 - Non-cash interest expense;
- Decreasing Non-GAAP net income by amounts accrued, if any, during the period for contingent interest payable resulting from upside or downside triggers related to the Convertible Debentures; and
- Adjusting Non-GAAP net income for an income tax rate of 26% for 2015 and 28% for 2014, both of which differ from the GAAP income tax rate.

Financial forecasts and guidance are forward looking statements and actual results may vary for a number of reasons including those mentioned in our most recent 10-K, 10-Q and 8-K filings with the SEC.

Reconciliation of Non-GAAP Financial Measures

(In thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2015		Three Months Ended December 31, 2014		Three Months Ended March 31, 2014	
	Operating Income	Net Income	Operating Income	Net Income	Operating Income	Net Income
GAAP as reported	\$ 144,237	\$ 88,239	\$ 142,221	\$ 65,472	\$ 139,585	\$ 94,423
Adjustments:						
Stock-based compensation	10,128	10,128	9,696	9,696	9,993	9,993
Unrealized loss on contingent interest derivative on the subordinated convertible debentures		7,019		1,704		(5,269)
Non-cash interest expense		2,706		2,641		2,443
Contingent interest payable on subordinated convertible debentures		(2,690)		(2,613)		—
Tax adjustment		(6,369)		18,071		(6,634)
Non-GAAP	<u>\$ 154,365</u>	<u>\$ 99,033</u>	<u>\$ 151,917</u>	<u>\$ 94,971</u>	<u>\$ 149,578</u>	<u>\$ 94,956</u>
Revenues	\$ 258,422		\$ 255,917		\$ 248,796	
Non-GAAP operating margin	<u>59.7%</u>		<u>59.4%</u>		<u>60.1%</u>	
Diluted shares		133,850		135,899		148,600
Per diluted share, non-GAAP		<u>\$ 0.74</u>		<u>\$ 0.70</u>		<u>\$ 0.64</u>

Verisign provides quarterly and annual financial statements that are prepared in accordance with generally accepted accounting principles (GAAP). Along with this information, we typically disclose and discuss certain non-GAAP financial information in our quarterly earnings release, on investor conference calls and during investor conferences and related events. This non-GAAP financial information does not include the following types of financial measures that are included in GAAP: stock-based compensation, unrealized gain/loss on contingent interest derivative on subordinated convertible debentures, and non-cash interest expense. Non-GAAP net income is decreased by amounts accrued, if any, during the period for contingent interest payable resulting from upside or downside triggers related to the subordinated convertible debentures and is adjusted for an income tax rate of 26 percent for 2015 and 28 percent for 2014, both of which differ from the GAAP income tax rate.

Management believes that this non-GAAP financial data supplements the GAAP financial data by providing investors with additional information that allows them to have a clearer picture of our operations. The presentation of this additional information is not meant to be considered in isolation nor as a substitute for results prepared in accordance with GAAP. We believe that the non-GAAP information enhances investors' overall understanding of our financial performance and the comparability of our operating results from period to period. Above, we have provided a reconciliation of the non-GAAP financial information that we provide each quarter with the comparable financial information reported in accordance with GAAP for the given period.

SUPPLEMENTAL FINANCIAL INFORMATION

The following table presents the classification of stock-based compensation:

	Three Months Ended March 31,	Three Months Ended December 31,	Three Months Ended March 31,
	2015	2014	2014
Cost of revenues	\$ 1,739	\$ 1,652	\$ 1,598
Sales and marketing	1,299	2,121	1,848
Research and development	1,721	1,829	1,872
General and administrative	5,369	4,094	4,675
Total stock-based compensation expense	<u>\$ 10,128</u>	<u>\$ 9,696</u>	<u>\$ 9,993</u>

Adjusted EBITDA Reconciliation

(In thousands, except per share data)

(Unaudited)

On a quarterly basis we disclose our Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure and is calculated in accordance with the terms of the indentures governing our 4.625% senior notes due 2023 and our 5.25% senior notes due 2025. Adjusted EBITDA refers to net income before interest, taxes, depreciation and amortization, stock-based compensation, unrealized loss (gain) on contingent interest derivative on the subordinated convertible debentures and unrealized loss (gain) on hedging agreements.

The following table reconciles GAAP net income to Adjusted EBITDA for the periods shown below (in thousands):

	Three Months Ended	
	March 31,	
	2015	2014
Net Income	\$ 88,239	\$ 94,423
Interest expense.....	22,017	21,385
Income tax expense	28,427	30,293
Depreciation and amortization	15,747	16,008
Stock-based compensation.....	10,128	9,993
Unrealized loss on contingent interest derivative on the subordinated convertible debentures.....	7,019	(5,269)
Unrealized (gain) loss on hedging agreements	(456)	135
Adjusted EBITDA	\$ 171,121	\$ 166,968

	Four Quarters Ended	
	March 31, 2015	
Net income	349,076	
Interest expense	86,626	
Income tax benefit.....	126,185	
Depreciation and amortization	63,430	
Stock-based compensation	44,112	
Unrealized gain on contingent interest derivative on the subordinated convertible debentures	10,039	
Unrealized gain on hedging agreements	(743)	
Adjusted EBITDA	\$ 678,725	

Verisign's management believes that presenting Adjusted EBITDA enhances investors' overall understanding of our financial performance and the comparability of our operating results from period to period. However, Adjusted EBITDA has important limitations as an analytical tool. These limitations include, but are not limited to, the following:

- Adjusted EBITDA does not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating its ongoing operating performance for a particular period; and
- other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP.

Free Cash Flow Calculation

Reconciliation of Operating Cash Flow to Free Cash Flow ⁽¹⁾⁽²⁾

Free Cash Flow (\$M)	FY12	Q113	Q213	Q313	Q413	FY13	Q114	Q214	Q314	Q414	FY14	Q115
Cash Flow from Operating Activities	537.6	150.6	146.8	134.5	147.4	579.4	141.6	121.1	167.7	170.5	600.9	132.7
Excess Tax Benefits from Stock-Based Awards	<u>18.4</u>	<u>11.8</u>	<u>5.8</u>	<u>12.5</u>	<u>(10.8)</u>	<u>19.3</u>	<u>0.0</u>	<u>15.3</u>	<u>(6.7)</u>	<u>(2.5)</u>	<u>6.1</u>	<u>6.0</u>
Total	556.0	162.4	152.6	147.0	136.7	598.7	141.6	136.4	161.0	168.0	607.0	138.7
Acquisition of Property and Equipment, Net	<u>(53.0)</u>	<u>(17.1)</u>	<u>(20.4)</u>	<u>(12.7)</u>	<u>(15.4)</u>	<u>(65.6)</u>	<u>(11.3)</u>	<u>(7.5)</u>	<u>(11.3)</u>	<u>(9.2)</u>	<u>(39.3)</u>	<u>(13.0)</u>
Total Free Cash Flow	503.0	145.3	132.2	134.3	121.3	533.1	130.3	128.9	149.7	158.8	567.7	125.6

- 1) Free Cash Flow is a non-GAAP financial measure defined as cash flow from operating activities (adjusted to include excess tax benefits from stock-based compensation), less net capital expenditures. The excess tax benefits from stock-based compensation, as reported on the statements of cash flows in cash flows from financing activities, represent the reduction in income taxes otherwise payable during the period, attributable to the actual gross tax benefits in excess of the expected tax benefits for options exercised/awards released in current and prior periods.
- 2) The sum of the amounts in the columns and rows may not match the total amounts shown due to rounding.

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