ENDURANCE
International Group

The following prepared remarks are an excerpt from the Third Quarter 2013 Earnings Conference Call of Endurance International Group Holdings, Inc. To review the contents of the entire earnings 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 financial guidance for fiscal year 2013, our long term annual growth rate expectations, and our expectations regarding future interest expense, 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 the Company's 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 December 3, 2013, 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 third quarter 2013 earnings release and presentation, each dated December 3, 2013, 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 Senior Vice President of Corporate Development and Investor Relations. On behalf of Endurance International Group, it is my pleasure to welcome you to our first earnings call as a public company.

We expect to go through prepared comments, after which we'll turn it over to Q&A. We have prepared a presentation to go alongside our comments, which 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 through 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 prospectus filed with the SEC on October 25, 2013 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 present several non-GAAP financial measures, including adjusted EBITDA, unleveraged free cash flow, adjusted revenue and average revenue per subscriber. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measure 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 earnings call. As you may have seen from our earnings release, we had a very strong third quarter growing revenue, adjusted EBITDA and unlevered free cash flow.

Given this is our first earnings call, we thought it might be useful to spend some time introducing Endurance. Our mission is to deliver superior cloud-based platform solutions that help small and medium-sized businesses succeed online. Our company strategy is based on two simple principles, organically adding more high quality subscribers to our platform and then selling our subscribers more value-added solutions. This, in combination with the best-in-class cloud enablement platform, translates to a growth equation that underlies everything that we do.

Our product offering ranges from a basic web presence, which includes a hosted website, a domain name, an e-mail account et cetera, all the way up to more complex and managed cloud-based applications. All of our over 3.4 million subscribers have at least the basic web presence package to start and we have the ability to grow with them at this scale. Through data gained over 16 years of serving the SMB community, we're able to identify customer needs and provide solutions that help them not just get found but get new business.

Examples of this product set include Google AdWord credits, an advanced SEO/SEM solution which drives traffic to our subscribers' websites. Once found, our subscribers can take advantage of our SMB growth-focused solutions to help them succeed. Included in our product suite are e-mail marketing tools, eCommerce solutions and virtualized and managed application hosting, to name a few. The ability to deliver high quality solutions to these highly engaged SMBs is a core strength of the company.

Our go-to-market strategy revolves around two organic growth levers in the business: adding high-quality subscribers and selling them more products and services. On the subscriber acquisition dimension, we've adopted a multi-channel, multi-brand approach to establish relationships with SMBs. We use multiple channels to reach potential customers. Our most powerful channel is customer advocacy and word of mouth. About 45% of new subscribers added to the Endurance platform find us through word of mouth, not costing us any additional marketing dollars. The biggest lever to influence this is Net Promoter Score.

We focus a lot on delivering a superior solution, which is fueled by our cloud enablement platform, and great customer service, which drives favorable NPS scores. The second most important channel is our 400,000 online partners who educate the businesses searching online for a web presence solution and refer these businesses to us. As a result of this channel, almost all marketing dollars that we spend are success-based, meaning that we only pay referral fees to a partner if a subscriber actually enrolls with us.

Rounding out our multi-channel approach, we also attract subscribers via add-on product offerings and traditional business relationships. Of course, the multi-channel approach would not be nearly as successful if not paired with multiple brands.

For a targeted customer base as broad and diverse as the SMB community, we believe that offering solutions through multiple brands is critical. The approach allows us to tailor our message and differentiate between a highly technical web-based entrepreneur launching his third start up and a 30-year accountant who finally realizes that he needs to get online. Further, when deployed across our network of online partners, the segmented approach yields high customer conversion rates, and as a result is able to provide us with a robust on-boarding funnel and a very attractive subscriber acquisition costs.

The second important aspect of our strategy involves increasing our average revenue per subscriber, or ARPS, which we accomplish by distributing a broad portfolio of products across multiple points of engagement. Endurance maintains over 150 different value-added products designed to help our subscribers establish, maintain and grow their business via the web. We're constantly adding new products that are relevant to the current state of the SMB market.

While adding products is important, it is just as important to influence SMBs to buy these products from us through multiple touch points. What results is a symbiotic relationship where higher product adoption rates give the customers more tools to manage their business while driving more revenues for the company and reducing churn. When combined with our robust subscriber acquisition funnel, this strategy has a compounding effect that helps drive sustainable revenue growth.

The driving engine behind our strategy is a best-in-class cloud enablement technology platform. It is through this platform that we can support multiple brands, attract customers through multiple channels and seamlessly deploy multiple products, all the while allowing customers to scale and grow. This platform has taken many years to build and we believe it serves as a great differentiator and a competitive barrier to entry. And it also fosters a unique point of differentiation by delivering these cloud-based solutions fast, reliably and safely.

This attracts high quality subscribers who view web presence as mission critical. These subscribers then demand high quality products creating a natural alignment with our corporate strategy of adding subscribers and upselling products. Taken together, this strategy yields the strong performance driving both the top and bottom line growth seen in Q3.

As we examine the third quarter in greater detail, momentum built in the first half of the year has extended through to Q3 allowing us to exceed the high end of the range of estimates we provided during our IPO process. For the first nine months of the year, we generated revenues of $384 million, adjusted EBITDA of $161 million and unlevered free cash flow of $129 million. During this time, we organically grew our subscriber base by 217,000, bringing the total to over 3.4 million. Further, during the period we also grew average revenue per subscriber and maintained a monthly recurring revenue, or MRR, retention rate of 99%.

We completed our initial public offering on October 25, 2013, and raised $252.6 million in gross proceeds from selling 21.051 million shares to the public at an offer price of $12 per share. On November 25, we closed a refinancing of our senior bank debt and revolving credit facility. Using proceeds from the IPO, cash on hand and incremental first lien facilities, we retired our $315 million second lien term loan.

Moving on to operating metrics. During Q3 2013, we added 70,000 paying subscribers to our platform. Over the last eight quarters, we've grown our subscribers by a compounded annual growth rate of 10% on an organic basis. Our average revenue per subscriber for Q3 2013 was $13.14, an increase of 2% over Q3 of 2012. Excluding the impact of our 2012 acquisitions, average revenue per subscriber grew by 9%. Finally, our monthly recurring revenue retention rate was steady at 99% in Q3 2013 and consistent with our MRR in Q3 of 2012.

With that, I'd like to hand it over to Tiv Ellawala, our CFO, who will run through the financials in greater detail. Tiv?

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

Thanks, Hari. For those of you following our presentation, we will start on slide 11. Turning to the financial results, our GAAP revenue for the third quarter of 2013 was $132.9 million. Our year-over-year GAAP revenue growth was 59%. On an adjusted revenue basis, which we feel is a measure of the true organic growth of the business, we generated $134.2 million of revenues, or 12% growth over the third quarter of 2012.

As we have noted previously, we completed two large acquisitions in 2012, which we are migrating onto our platform over the course of 2013.During migrations, we typically manage our investment in the migrating brand to allow us to focus on on-boarding these new subscribers to our cloud enablement platform.

Excluding the impact of 2012 acquisitions, our adjusted revenue was $77.4 million, or 15% growth over the third quarter of 2012. Once the migrations are completed at the end of the year, and those subscribers have access to our full suite of products and services, we anticipate average revenue per subscriber and overall revenue to grow for those brands as it has with past acquisitions.

Our adjusted EBITDA for the third quarter 2013 was $50.3 million. Costs came in line with estimates allowing for the increase in revenue to fall down to adjusted EBITDA. Our unlevered free cash flow for third quarter 2013 was $43.1 million. Our capital expenditures for Q3 were approximately $7.5 million, or approximately 5.5% of revenues including investments related to migrations associated with HostGator and Homestead. The Company benefited from a favorable change in working capital in the third quarter, which compounded growth above expectations.

As Hari noted, subsequent to our third quarter end, we refinanced our debt and retired in full our $315 million second lien tranche of bank debt and increased our first lien facility by $166 million. Consequently, our capital structure is now comprised of a single tranche of first lien term debt of $1.050 billion. As part of the refinancing and the IPO, we have not only aggressively delevered the company by nearly a full turn but also reduced our weighted average cost of debt, resulting in annualized interest expense savings for term debt of approximately $35 million based on the current loan balance and new interest rates.

In terms of future guidance, we are pleased to say we expect adjusted revenues of approximately $525 million for the full year 2013. Our adjusted revenues include an add-back to GAAP revenues of $7.3 million for the full year 2013 associated with the purchase accounting impact on deferred revenue. The impact of purchase accounting was $1.3 million in the third quarter of 2013 and apart from any acquisitions will be approximately $0.5 million in the fourth quarter. Assuming no future acquisitions, adjusted revenue and GAAP revenue will converge such that the impact of purchase accounting in 2014 will be negligible.

For the full year 2013, we expect adjusted EBITDA to be approximately $204 million and unlevered free cash flow to be approximately $162 million. Given the late stage of the year, we are providing approximate point estimates for full year 2013. In the future, we expect to guide to traditional ranges as opposed to point estimates of full-year financial performance.

With that, I will turn you over to Hari to discuss our long-term opportunities.

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

Thank you, Tiv. As we look forward, we expect growth to continue to come from our two primary levers, adding more subscribers to our platform and growing our average revenue per subscriber. On the subscriber acquisition side of the equation, we've created beachheads in Brazil and India and will continue to add subscribers in these markets. We expect to add $5 million in revenues in Brazil next year which is an annual growth rate of over 50%. We expect our organic revenues in India to increase by approximately 60% in the next 12 months, not including the Directi acquisition, which is not considered in these numbers, but is targeted to close in Q4.

Directi will enhance our efforts towards geographic expansion due to its strong presence in rapidly growing markets such as Brazil, Russia, India, China, Indonesia and Turkey. On top of geographic expansion, we're also developing new partnerships while expanding existing ones like the Google relationship in the US and India. Further development and continued growth is also anticipated in the average revenue per subscriber.

We are continuously adding to our portfolio of over 150 products and services and are now focusing on the availability of additional mobile solutions for our subscribers and additional higher priced products. In addition to expanding the choice of products, we're also expanding the distribution of products and making it very easy for our subscribers to access our applications.

We recently launched the MOJO Marketplace, which is our app marketplace across our Bluehost brand and plan to expand across our other brands in the near future. While still early in its life cycle, MOJO has already shown good traction amongst the Bluehost subscriber base, increasing its monthly revenue four-fold since its June rollout.

Finally, we continue to test and fine-tune our points of engagement, using our agents to convert support calls to sales opportunities. At our Tempe call center, we have successfully refined this process such that now we're running that support facility at breakeven given our ability to upsell on support calls.

I'd like to thank everyone for their interest and support of Endurance as a new public company. And I'd also like to thank all of our employees for their hard work and dedication as we continue to grow the company.

And with that, I'll turn it back over to the Operator for Q&A.