ENDURANCE
International Group

The following prepared remarks are an excerpt from the 2016 Fourth Quarter and Fiscal 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 2016 Fourth Quarter and Fiscal Year Earnings Presentation slides, which are available at the same location.

*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 2017; our anticipated focus areas for 2017; our plans to invest in building brand awareness for key brands and to fund operational and infrastructure improvements to enhance the customer product and service experience, and our belief that these investments will position us to achieve long term profitable growth and increased free cash flow; trends in our subscriber count during 2017; the planned target market segments for our key hosting brands and our strategies for growing these brands; the anticipated timing and results of our consolidation of customer support operations to our Tempe, AZ and Houston, TX locations; our intention to drive growth, profitability and cash flow for our email marketing segment through product, pricing and packaging, marketing and international expansion initiatives; our plans for investment in our international business and expansion in international markets; the timing of our website builder product relaunch and associated marketing spend; our expectations regarding the impact of restructuring and integration expenses on free cash flow in 2017; our plans to make media purchases to build brand awareness across key brands; the results of our efforts to build brand awareness; our plans to use adjusted EBITDA and free cash flow to pay down debt and de-lever our balance sheet; 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," "looking to" 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 2017 guidance may differ from expectations; our inability to successfully enhance the customer product and service experience and improve customer satisfaction and retention through operational and infrastructure improvements; difficulties or delays in our efforts to build brand awareness of our key brands; our inability to drive revenue growth by increasing ARPS through cross-selling and other product-related initiatives; 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; 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; 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 September 30, 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). 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, 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 2016 third quarter earnings release and presentation, each dated November 1, 2016, and available in the investor relations section of our website at www.endurance.com.*

***********************************

**Lynn Harrison – Director, Investor Relations**

Good morning, this is Lynn Harrison, Director of Investor Relations at Endurance International Group. It is my pleasure to welcome you to our fourth quarter and fiscal year 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. 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, 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 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.

Starting with the fourth quarter of 2016, we will present our financial results in two segments. Our Web Presence segment is our historical business before the acquisition of Constant Contact, and primarily includes our web hosting products, domains, website builders and related add-on products. Our Email

Marketing segment consists of the Constant Contact business, including email marketing, event management, survey tools and the SinglePlatform service.

And finally, year-over-year pro forma growth rates mentioned on this call are calculated as if we had owned Constant Contact for all of 2015 and 2016. Please note that these growth rates only reflect the 2015 and 2016 pro forma results for Constant Contact and are not adjusted for the pre-acquisition periods of any of our smaller acquisitions made during 2015 or 2016.

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

**Hari Ravichandran – Founder and CEO**

**Slide 5** Thanks Lynn. Good morning everyone, and welcome to our fourth quarter and full year 2016 earnings call. We are pleased that we closed the year with solid fourth quarter results, and very pleased to exceed our revenue, adjusted EBITDA and free cash flow revised guidance. For the fourth quarter 2016, GAAP revenue was $292.1 million, reflecting year over year growth on a combined pro forma basis of 2 percent. GAAP net loss was $(32.1) million, and GAAP cash flow from operations was $53.2 million. Adjusted EBITDA was $87.0 million, reflecting year over year growth of 5 percent on a combined pro forma basis, and free cash flow was $43.7 million. We ended the quarter with approximately 5.37 million subscribers on platform at an average revenue per subscriber, or ARPS, of $18.02. Our fourth quarter results reflect our continued commitment to driving profitable growth and strong free cash flow.

**Slide 6** GAAP revenue for 2016 was $1.111 billion, exceeding our revised guidance by $21 million. GAAP net loss was $(81.2) million, and GAAP cash flow from operations was $155.0 million. Full year adjusted EBITDA was $288.4 million, 7 percent above our guidance. Free cash flow for the year was $111.8 million, approximately $12 million above our guidance. Free cash flow in 2016 was negatively impacted by approximately $60 million of transaction, restructuring and integration expenses, mostly associated with the Constant Contact acquisition. Our total subscriber base at the end of 2016 was 5.37 million, at an ARPS of $17.53.

Starting in the second half of 2016, we refocused our marketing spend on our portfolio of key investment brands, including among others, Bluehost, HostGator, iPage, Constant Contact and our site builder brand. This brand portfolio generated positive net subscriber additions during Q4 and full year 2016. These positive net additions were offset by subscriber losses from our non-strategic brands, including our cloud storage and VPN products. We expect these trends in subscribers to continue during 2017, due primarily to the impact of non-strategic brands.

**Slide 7** We are pleased with the decision we made during the summer of 2016 to shift our marketing and operational investments to focus on several of our key brands. Focusing on fewer web presence brands allows us to position and differentiate each brand in specific market segments and to improve the product, service and server experience.

In the Web Presence business, we plan to focus our marketing spend primarily on Bluehost, HostGator and iPage. For each of these brands, our strategy is to target a specific market segment. In particular, we expect that:

- Bluehost will focus on serving the Wordpress marketplace;
- HostGator will focus on serving digital influencers; and
- iPage will focus on serving the novice segment of the SMB web presence market.

Within this subset of brands, we are increasing our investment with the goal of driving profitable growth and contribution to future cash flows. For our other web hosting brands, we plan to focus on operating them efficiently in order to maximize free cash flow.

Our strategy for these key hosting brands in 2017 will be to expand our marketing channels to extend our reach and increase brand awareness. We plan to do this by:

- Increasing marketing spend across our affiliate network, which continues to serve us well at a relatively low cost to acquire and
- Testing additional channels and making modest new investments in more traditional media categories such as radio and TV media purchases, to build brand awareness.

We are also investing in operational improvements across our key brands, specifically in product platform and customer experience. In addition, we will also be investing in improving customer service and support. We are creating more centralized support and sales functions to both provide better service to our customers and utilize resources more efficiently and effectively. We have already started to consolidate our customer support operations and have begun closing the support functions in Orem, Utah and Austin, Texas, and moving those operations to Tempe, Arizona and Houston, Texas. We anticipate that this transition will be completed by the end of 2017.

**Slide 8** Turning to our Email Marketing segment, we completed the integration of Constant Contact in 2016. The Constant Contact business performed above expectations during 2016, contributing $326.8 million in revenue, representing approximately 29 percent of total combined revenue, and $116.3 million in adjusted EBITDA to 2016 consolidated results. Key customer metrics for Constant Contact continue to be strong, with higher ARPS and steady retention contributing to positive lifetime revenue trends and top line revenue growth.

The focus at Constant Contact in 2017 will continue to be balancing prudent investment in top line growth with efforts to drive profitability and cash flow. We intend to continue to improve the value of our product by delivering high demand features and add-ons, as well as third party integrations. Through pricing and packaging alternatives we will be targeting new customer segments, including high volume price sensitive buyers, as well as more advanced professional users. In addition, as part of our subscriber acquisition strategy we plan to expand our marketing channel mix into affiliates, as well as test into international markets. We also plan to continue to focus on maintaining strong brand awareness through our proven media channels, including TV and radio.

Further, we plan to invest in our international business and website builder product relaunch. For the international business, we plan to build awareness of our BigRock brand through TV campaigns and expand our marketing efforts within the Indian market. We will expect to launch a localized version of Constant Contact in India. In LatAm and China, we plan to expand our reach using the Bluehost and HostGator brands, respectively. We will be looking to launch an improved version of our website builder product in the second half 2017. We expect that our marketing efforts for the sitebuilder brand will increase in the second half as we ramp up efforts for this product.

In summary, we see additional opportunities in our Web Presence and Email Marketing businesses, and we are investing in fewer initiatives that we believe will further contribute to sustainable cash flows and scale. We expect that our efforts will continue to grow our adjusted EBITDA and free cash flow, which we plan to use to pay down debt. We are excited about the opportunities ahead of us and appreciate your continued support.

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. First, I would like to highlight that going forward we will provide financial results for two key segments of our business: Web Presence and Email Marketing. For each segment we will provide GAAP revenue, gross margin, adjusted EBITDA, ARPS and subscriber information. This will enable our investors to better analyze the key components of our business.

**Slide 10** I am pleased to review our Q4 and full year 2016 results, which reflect our continued commitment to driving profitable growth and strong free cash flow. For the fourth quarter of fiscal 2016:

- GAAP revenue was $292.1 million;
- Adjusted EBITDA was $87.0 million; and
- Free cash flow, defined as cash flow from operations, less cap ex and capitalized leases, was $43.7 million, resulting in free cash flow per share of $0.33.

On a segment basis, Web Presence revenue totaled $195.0 million. Email Marketing revenue totaled $97.1 million. The Web Presence segment contributed $46.1 million and the Email Marketing segment contributed $40.9 million to adjusted EBITDA in Q4 2016.

GAAP cash flow from operations was $53.2 million, reflecting a 23 percent increase year over year. Capex was $9.5 million, or 3.3 percent of GAAP revenue, and free cash flow of $43.7 million was higher by 31 percent year over year. Higher year over year cash flow from operations and free cash flow in the quarter were driven primarily by the acquisition of Constant Contact.

**Slide 11** Results for the full year ended December 31, 2016 were better than revised 2016 guidance, and included:

- GAAP revenue of $1.111 billion;
- Adjusted EBITDA of $288.4 million; and
- Free cash flow for the year of $111.8 million, approximately $12 million above our revised 2016 guidance, resulting in free cash flow per share of $0.84 per share. Free cash flow was negatively impacted in 2016 by $60 million of restructuring and transaction expenses mostly related to the Constant Contact acquisition.

On a segment basis, Web Presence revenue totaled $784.3 million, an increase of 6 percent year over year, mainly due to acquisitions. Email Marketing revenue totaled $326.8 million. Email Marketing revenues were adversely impacted by the purchase accounting fair value adjustment to deferred revenue, which reduced 2016 revenue by $15 million. The Web Presence segment contributed $172.1 million and the Email Marketing segment contributed $116.3 million to adjusted EBITDA, respectively. Please note that some corporate overhead costs have been reallocated to Constant Contact. Without the reallocation of these extra overhead costs and the adverse purchase accounting impact, we realized approximately $70 million in cost synergies at Constant Contact. This was well in excess of the $55 million estimated at the time of the acquisition.

GAAP cash flow from operations for fiscal 2016 was $155.0 million. Capex was $43.2 million, or 3.9 percent of GAAP revenue.

**Slide 12** Turning to operating metrics, total subscribers equaled 5.371 million for Q4. Subs decreased sequentially by approximately 68,000 subscribers from Q3 to Q4 2016. Starting in Q3 2016 we reallocated the bulk of our marketing spend to our key brands Bluehost, HostGator, iPage, Constant Contact and our sitebuilder product. Taken together, these brands contributed positive net adds for Q4 and the full year 2016. Overall net adds were negatively impacted by churn in non-strategic and discontinued brands. We expect total subscribers to continue to decrease during 2017 due primarily to subscriber churn in these non-strategic brands.

Over time we have expanded our marketing strategy globally to lead with a domain product. As part of this effort, we started offering bundles that include domain privacy, email, basic hosting, or other products and services in addition to a domain name. Similar to introductory pricing in the hosting business, these packages are often significantly discounted for the initial term, with price increases applying on renewal. By the end of 2016, subscribers on-boarded through these programs had begun to represent a more meaningful portion of our total subscriber base. We expect some of these subscribers to pressure ARPS. Our goal with these programs is to expand our marketing funnel, while achieving positive marketing yields through renewal at full price, and cross-selling and up-selling of ancillary products.

On a combined company basis, ARPS for Q4 was $18.02 versus $17.78 in Q3 2016. Q4 ARPS for the Web Presence segment was $13.37 versus $13.25 in Q3 2016, while Q4 ARPS for the Email Marketing segment was $59.43 versus $58.27 in Q3 2016.

As we look at revenue mix for Q4, hosting services and add-ons such as security, mobile optimization, and e-commerce integration represented approximately 49 percent of our revenue. Email marketing accounted for approximately 33 percent, domain registrations approximately 12 percent, and the remainder of the business, such as domain monetization and co-marketing funds, accounted for approximately 6 percent.

**Slide 13** On a year over year basis, total subscribers equaled 5.371 million for the full year 2016, including subscribers brought to the platform through the acquisition of Constant Contact. On a combined company basis, ARPS for the full year 2016 was $17.53. Full year 2016 ARPS for the Web Presence business was $13.65, while full year ARPS for the Email Marketing business ARPS was $55.11.

As we look at the revenue mix for the year, hosting services and add-ons such as security, mobile optimization, and e-commerce integration now represent approximately 51 percent of our revenue. Email marketing accounts for approximately 29 percent, domain registrations approximately 13 percent, and the remainder of the business, such as domain monetization and co-marketing funds, accounts for approximately 7 percent.

**Slide 14** For the full year 2017, our guidance is the following:

- GAAP revenue growth of 4 to 5 percent;
- Adjusted EBITDA growth of 12 to 14 percent; and
- Free cash flow growth of approximately 35 percent. We expect free cash flow will be negatively impacted by approximately $11 million of restructuring and integration charges during 2017.

Separately, we expect that for the full year 2017 our key uses of cash will be:

- Capital expenditures, including capitalized leases, of between $50 - $55 million;
- Principal term loan debt pay down of at least $100 million;
- Deferred consideration and related payments of approximately $30 million.

**Slide 15** We ended fiscal year 2016 with $2,056 million in total senior debt. Including other deferred obligations and capital leases, total net debt at the end of the period was $2,019 million. We ended the quarter with approximately $57 million of cash on the balance sheet. During the Q4 2016 we fully paid down our revolving credit facility with net payments totaling $33.5 million, ending with a zero balance on our revolver and available credit balance of $165 million.

During fiscal 2016 we made the following key cash payments, which totaled approximately $273 million:

- Interest payments of $119 million;
- Term loan debt payments of $55 million; and
- Deferred consideration and related payments of $98 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-month bank adjusted EBITDA, which was $363.8 million in Q4. Our senior debt leverage ratio was 4.56x bank adjusted EBITDA at Q4 and fiscal year end. We remain well below our maximum allowed leverage of 6.5x. We are still committed to reducing our secured debt to bank adjusted EBITDA leverage ratio to less than 4x in the medium term.

In conclusion, we will continue to focus our investments on key brands that serve the SMB market. We believe we are already seeing the benefits of a more balanced investment approach and are positioning ourselves well for the future. Thank you for joining us today, and now I'll turn the call back to the operator to begin Q&A.