



October 26, 2017

Verisign Reports Third Quarter 2017 Results

RESTON, Va.--(BUSINESS WIRE)-- VeriSign, Inc. (NASDAQ: VRSN), a global leader in domain names and internet security, today reported financial results for the third quarter of 2017.

Third Quarter GAAP Financial Results

VeriSign, Inc. and subsidiaries ("Verisign") reported revenue of \$292 million for the third quarter of 2017, up 1.7 percent from the same quarter in 2016. Verisign reported net income of \$115 million and diluted earnings per share (diluted "EPS") of \$0.93 for the third quarter of 2017, compared to net income of \$114 million and diluted EPS of \$0.90 for the same quarter in 2016. The operating margin was 61.9 percent for the third quarter of 2017 compared to 60.8 percent for the same quarter in 2016.

Third Quarter Non-GAAP Financial Results

Verisign reported, on a non-GAAP basis, net income of \$124 million and diluted EPS of \$1.00 for the third quarter of 2017, compared to net income of \$119 million and diluted EPS of \$0.93 for the same quarter in 2016. The non-GAAP operating margin was 66.7 percent for the third quarter of 2017 compared to 65.3 percent for the same quarter in 2016. A table reconciling the GAAP to the non-GAAP results (which excludes items described below) is appended to this release.

"Our team has delivered another quarter of solid results," said Jim Bidzos, Executive Chairman, President and Chief Executive Officer.

Financial Highlights

- | Verisign ended the third quarter with cash, cash equivalents and marketable securities of \$2.4 billion, an increase of \$568 million from year-end 2016.
- | Cash flow from operations was \$175 million for the third quarter of 2017, compared with \$171 million for the same quarter in 2016.
- | Deferred revenues on Sept. 30, 2017, totaled \$1.01 billion, an increase of \$31 million from year-end 2016.
- | During the third quarter, Verisign repurchased 1.5 million shares of its common stock for \$147 million. At Sept. 30, 2017, \$622 million remained available and authorized under the current share repurchase program which has no expiration.
- | For purposes of calculating diluted EPS, the third quarter diluted share count included 24.0 million shares related to subordinated convertible debentures, compared with 20.8 million shares for the same quarter in 2016. These represent dilutive shares and not shares that have been issued.

Business Highlights

- | Verisign ended the third quarter with 145.8 million .com and .net domain name registrations in the domain name base, a 1.2 percent increase from the end of the third quarter of 2016, and a net increase of 1.47 million during the third quarter of 2017.
- | In the third quarter, Verisign processed 8.9 million new domain name registrations for .com and .net, compared to 8.3 million for the same quarter in 2016.
- | The final .com and .net renewal rate for the second quarter of 2017 was 74.0 percent compared with 73.8 percent for the same quarter in 2016. Renewal rates are not fully measurable until 45 days after the end of the quarter.

Non-GAAP Financial Measures and Adjusted EBITDA

Verisign provides quarterly and annual financial statements that are prepared in accordance with generally accepted accounting principles (GAAP). Along with this information, management typically discloses and discusses certain non-GAAP

financial information in quarterly earnings releases, 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 the contingent interest derivative on the 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 through August 15, 2017, resulting from upside or downside triggers related to the subordinated convertible debentures, and is adjusted for an income tax rate of 25 percent starting from the second quarter of 2017, and 26 percent for the other periods presented herein, both of which differ from the GAAP income tax rate.

On a quarterly basis, Verisign also provides Adjusted EBITDA. Adjusted EBITDA is a non-GAAP financial measure and is calculated in accordance with the terms of the indentures governing Verisign's senior notes. Adjusted EBITDA refers to net income before interest, taxes, depreciation and amortization, stock-based compensation, unrealized gain / loss on the contingent interest derivative on the subordinated convertible debentures, unrealized gain / loss on hedging agreements and gain on the sale of a business.

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 Verisign's operations and financial performance and the comparability of Verisign's operating results from period to period. 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.

The tables appended to this release include a reconciliation of the non-GAAP financial information to the comparable financial information reported in accordance with GAAP for the given periods.

Today's Conference Call

Verisign will host a live conference call today at 4:30 p.m. (EDT) to review the third quarter 2017 results. The call will be accessible by direct dial at (888) 676-VRSN (U.S.) or (323) 701-0225 (international), conference ID: Verisign. A listen-only live web cast of the conference call and accompanying slide presentation will also be available at <https://investor.verisign.com>. An audio archive of the call will be available at <https://investor.verisign.com/events.cfm>. This news release and the financial information discussed on today's conference call are available at <https://investor.verisign.com>.

About Verisign

Verisign, a global leader in domain names and internet security, enables internet navigation for many of the world's most recognized domain names and provides protection for websites and enterprises around the world. Verisign ensures the security, stability and resiliency of key internet infrastructure and services, including the .com and .net domains and two of the internet's root servers, as well as performs the root zone maintainer function for the core of the internet's Domain Name System (DNS). Verisign's Security Services include Distributed Denial of Service Protection and Managed DNS. To learn more about what it means to be Powered by Verisign, please visit Verisign.com.

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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, 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; new or existing governmental laws and regulations in the U.S. or other applicable foreign jurisdictions; system interruptions, security breaches, attacks on the internet by hackers, viruses, or intentional acts of vandalism; the uncertainty of the impact of changes to the multi-stakeholder model of internet governance; changes in internet practices and behavior and the adoption of substitute technologies; the success or failure of the evolution of our markets; the operational and other risks from the introduction of new gTLDs by ICANN and our provision of back-end registry services; the highly competitive business environment in which we operate; whether we can maintain strong relationships with registrars and their resellers to maintain their marketing focus on our products and services; challenging global economic conditions; economic, legal and political risk associated with our international operations; our ability to protect and enforce our rights to our intellectual property and ensure that we do not infringe on others' intellectual property; the outcome of legal or other challenges resulting from our activities or the activities of registrars or registrants, or litigation generally; the impact of our new strategic initiatives, including our IDN gTLDs; whether we can retain and motivate our senior management and key employees; the impact of unfavorable tax rules and regulations; and our ability to continue to

reinvest offshore our foreign earnings. 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, 2016, 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.

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VERISIGN, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

| | September 30, 2017 | December 31, 2016 |
|---|-------------------------------|------------------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 286,822 | \$ 231,945 |
| Marketable securities | 2,078,905 | 1,565,962 |
| Other current assets | 40,293 | 44,435 |
| Total current assets | 2,406,020 | 1,842,342 |
| Property and equipment, net | 265,306 | 266,125 |
| Goodwill | 52,527 | 52,527 |
| Deferred tax assets | 20,458 | 9,385 |
| Deposits to acquire intangible assets | 145,000 | 145,000 |
| Other long-term assets | 19,052 | 19,193 |
| Total long-term assets | 502,343 | 492,230 |
| Total assets | \$ 2,908,363 | \$ 2,334,572 |
| <u>LIABILITIES AND STOCKHOLDERS' DEFICIT</u> | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 193,462 | \$ 203,920 |
| Deferred revenues | 717,586 | 688,265 |
| Subordinated convertible debentures, including contingent interest derivative | 624,474 | 629,764 |
| Total current liabilities | 1,535,522 | 1,521,949 |
| Long-term deferred revenues | 289,262 | 287,424 |
| Senior notes | 1,781,912 | 1,237,189 |
| Deferred tax liabilities | 401,359 | 371,433 |
| Other long-term tax liabilities | 130,246 | 117,172 |
| Total long-term liabilities | 2,602,779 | 2,013,218 |
| Total liabilities | 4,138,301 | 3,535,167 |
| Commitments and contingencies | | |
| Stockholders' deficit: | | |
| Preferred stock—par value \$.001 per share; Authorized shares: 5,000; Issued and outstanding shares: none | — | — |
| Common stock—par value \$.001 per share; Authorized shares: 1,000,000; Issued shares: 325,172 at September 30, 2017 and 324,118 at December 31, 2016; Outstanding shares: 98,865 at September 30, 2017 and 103,091 at December 31, 2016 | 325 | 324 |
| Additional paid-in capital | 16,570,518 | 16,987,488 |
| Accumulated deficit | (17,797,627) | (18,184,954) |
| Accumulated other comprehensive loss | (3,154) | (3,453) |
| Total stockholders' deficit | (1,229,938) | (1,200,595) |
| Total liabilities and stockholders' deficit | \$ 2,908,363 | \$ 2,334,572 |

VERISIGN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------------|--|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Revenues | \$ 292,428 | \$ 287,554 | \$869,594 | \$855,896 |
| Costs and expenses: | | | | |
| Cost of revenues | 47,333 | 49,807 | 145,646 | 149,142 |
| Sales and marketing | 18,667 | 18,647 | 56,463 | 58,431 |
| Research and development | 12,715 | 14,324 | 39,569 | 45,355 |
| General and administrative | 32,654 | 30,000 | 96,626 | 85,158 |
| Total costs and expenses | <u>111,369</u> | <u>112,778</u> | <u>338,304</u> | <u>338,086</u> |
| Operating income | 181,059 | 174,776 | 531,290 | 517,810 |
| Interest expense | (37,756) | (28,919) | (95,869) | (86,582) |
| Non-operating income, net | 6,241 | 3,262 | 21,544 | 8,092 |
| Income before income taxes | 149,544 | 149,119 | 456,965 | 439,320 |
| Income tax expense | (34,645) | (34,692) | (102,554) | (104,227) |
| Net income | <u>114,899</u> | <u>114,427</u> | <u>354,411</u> | <u>335,093</u> |
| Realized foreign currency translation adjustments, included in net income | — | — | — | 85 |
| Unrealized gain (loss) on investments | 61 | (485) | 739 | 1,301 |
| Realized gain on investments, included in net income | (325) | (11) | (440) | (78) |
| Other comprehensive (loss) income | <u>(264)</u> | <u>(496)</u> | <u>299</u> | <u>1,308</u> |
| Comprehensive income | <u>\$ 114,635</u> | <u>\$ 113,931</u> | <u>\$354,710</u> | <u>\$336,401</u> |
| Earnings per share: | | | | |
| Basic | <u>\$ 1.15</u> | <u>\$ 1.08</u> | <u>\$ 3.51</u> | <u>\$ 3.10</u> |
| Diluted | <u>\$ 0.93</u> | <u>\$ 0.90</u> | <u>\$ 2.85</u> | <u>\$ 2.58</u> |
| Shares used to compute earnings per share | | | | |
| Basic | <u>99,614</u> | <u>106,307</u> | <u>101,036</u> | <u>107,982</u> |
| Diluted | <u>124,074</u> | <u>127,750</u> | <u>124,162</u> | <u>129,967</u> |

VERISIGN, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

| | Nine Months Ended September 30, | |
|---|--|-------------|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net income | \$ 354,411 | \$ 335,093 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation of property and equipment | 37,665 | 44,114 |
| Gain on sale of business | (10,421) | — |
| Stock-based compensation | 40,043 | 35,745 |
| Payment of contingent interest | (15,232) | (13,385) |
| Amortization of debt discount and issuance costs | 10,827 | 9,971 |
| Other, net | (8,942) | (5,355) |
| Changes in operating assets and liabilities: | | |
| Other assets | 4,566 | 14,278 |
| Accounts payable and accrued liabilities | (9,524) | (8,285) |

| | | |
|---|-------------------|-------------------|
| Deferred revenues | 32,790 | 19,470 |
| Net deferred income taxes and other long-term tax liabilities | 67,385 | 56,397 |
| Net cash provided by operating activities | <u>503,568</u> | <u>488,043</u> |
| Cash flows from investing activities: | | |
| Proceeds from maturities and sales of marketable securities | 3,895,675 | 3,029,699 |
| Purchases of marketable securities | (4,398,787) | (2,917,743) |
| Purchases of property and equipment | (40,609) | (19,889) |
| Deposits to acquire intangible assets | — | (143,000) |
| Other investing activities | 12,102 | 171 |
| Net cash used in investing activities | <u>(531,619)</u> | <u>(50,762)</u> |
| Cash flows from financing activities: | | |
| Proceeds from employee stock purchase plan | 12,915 | 13,670 |
| Repurchases of common stock | (474,290) | (501,934) |
| Proceeds from borrowings, net of issuance costs | 543,185 | — |
| Net cash provided by (used in) financing activities | <u>81,810</u> | <u>(488,264)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 1,118 | 109 |
| Net increase (decrease) in cash and cash equivalents | 54,877 | (50,874) |
| Cash and cash equivalents at beginning of period | 231,945 | 228,659 |
| Cash and cash equivalents at end of period | <u>\$ 286,822</u> | <u>\$ 177,785</u> |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest | \$ 86,622 | \$ 84,930 |
| Cash paid for income taxes, net of refunds received | <u>\$ 22,717</u> | <u>\$ 14,474</u> |

VERISIGN, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended September 30, | | | |
|--|---|-------------------|-----------------------------|-------------------|
| | 2017 | | 2016 | |
| | Operating Income | Net Income | Operating Income | Net Income |
| GAAP as reported | \$181,059 | \$ 114,899 | \$174,776 | \$ 114,427 |
| Adjustments: | | | | |
| Stock-based compensation | 14,105 | 14,105 | 12,854 | 12,854 |
| Unrealized gain on contingent interest derivative on the subordinated convertible debentures | | — | | (1,440) |
| Non-cash interest expense | | 3,779 | | 3,381 |
| Contingent interest payable on subordinated convertible debentures | | (1,879) | | (3,639) |
| Tax adjustment | | (6,741) | | (6,979) |
| Non-GAAP | <u>\$195,164</u> | <u>\$ 124,163</u> | <u>\$187,630</u> | <u>\$ 118,604</u> |
| Revenues | \$292,428 | | \$287,554 | |
| Non-GAAP operating margin | <u>66.7%</u> | | <u>65.3%</u> | |
| Diluted shares | | 124,074 | | 127,750 |
| Diluted EPS, non-GAAP | | <u>\$ 1.00</u> | | <u>\$ 0.93</u> |

| | Nine Months Ended September 30, | | | |
|-------------------------|--|-------------------|-----------------------------|-------------------|
| | 2017 | | 2016 | |
| | Operating Income | Net Income | Operating Income | Net Income |
| GAAP as reported | \$531,290 | \$ 354,411 | \$517,810 | \$ 335,093 |
| Adjustments: | | | | |

| | | | | |
|---|------------------|-------------------|------------------|-------------------|
| Stock-based compensation | 40,043 | 40,043 | 35,745 | 35,745 |
| Unrealized loss (gain) on contingent interest derivative on the subordinated convertible debentures | | 893 | | (2,411) |
| Non-cash interest expense | | 10,827 | | 9,971 |
| Contingent interest payable on subordinated convertible debentures | | (9,445) | | (10,406) |
| Tax adjustment | | (23,872) | | (18,550) |
| Non-GAAP | <u>\$571,333</u> | <u>\$ 372,857</u> | <u>\$553,555</u> | <u>\$ 349,442</u> |
| Revenues | \$869,594 | | \$855,896 | |
| Non-GAAP operating margin | <u>65.7%</u> | | <u>64.7%</u> | |
| Diluted shares | | 124,162 | | 129,967 |
| Diluted EPS, non-GAAP | | <u>\$ 3.00</u> | | <u>\$ 2.69</u> |

VERISIGN, INC.
RECONCILIATION OF NON-GAAP ADJUSTED EBITDA
(In thousands)
(Unaudited)

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

| | Three Months Ended | | Four Quarters |
|---|---------------------------|-------------------|----------------------|
| | September 30, | | Ended |
| | 2017 | 2016 | September 30, |
| | | | 2017 |
| Net Income | \$ 114,899 | \$ 114,427 | \$ 459,963 |
| Interest expense | 37,756 | 28,919 | 124,851 |
| Income tax expense | 34,645 | 34,692 | 138,855 |
| Depreciation and amortization | 12,493 | 14,697 | 51,718 |
| Stock-based compensation | 14,105 | 12,854 | 54,342 |
| Unrealized (gain) loss on contingent interest derivative on the subordinated convertible debentures | — | (1,440) | 902 |
| Unrealized loss on hedging agreements | 10 | 460 | 99 |
| Loss (gain) on sale of business | 186 | — | (10,421) |
| Non-GAAP Adjusted EBITDA | <u>\$ 214,094</u> | <u>\$ 204,609</u> | <u>\$ 820,309</u> |

VERISIGN, INC.
STOCK-BASED COMPENSATION CLASSIFICATION
(In thousands)
(Unaudited)

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

| | Three Months Ended | | Nine Months Ended | |
|---|---------------------------|------------------|--------------------------|------------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Cost of revenues | \$ 1,774 | \$ 1,779 | \$ 5,311 | \$ 5,367 |
| Sales and marketing | 1,369 | 1,129 | 4,255 | 4,219 |
| Research and development | 1,575 | 1,676 | 4,553 | 4,966 |
| General and administrative | 9,387 | 8,270 | 25,924 | 21,193 |
| Total stock-based compensation expense | <u>\$ 14,105</u> | <u>\$ 12,854</u> | <u>\$ 40,043</u> | <u>\$ 35,745</u> |

View source version on [businesswire.com](http://www.businesswire.com): <http://www.businesswire.com/news/home/20171026006236/en/>

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