



Verisign

Q4 & Full Year 2019
Earnings
Conference Call

February 6, 2020



VERISIGN®

Safe Harbor Disclosure

Statements in this presentation 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, including, but not limited to, statements regarding (i) Q4 2019 renewal rate expectations, (ii) Domain Name Base growth expectations, and (iii) our full year 2020 financial guidance for Revenue, Domain Name Base Growth, Operating Margins, Interest Expense and Non-Operating Income, net, Capital Expenditures and Effective Tax Rate. These statements are based on current expectations and assumptions and 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, risks arising from the agreements governing our business; 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; risks arising from our operation of two root zone servers and our performance of the Root Zone Maintainer functions; changes in internet practices and behavior and the adoption of substitute technologies; the success or failure of the evolution of our markets; 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; the possibility of system interruptions or failures; 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; and the impact of unfavorable tax rules and regulations. 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 December 31, 2018, 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 presentation.

Agenda

Introduction

Business Highlights

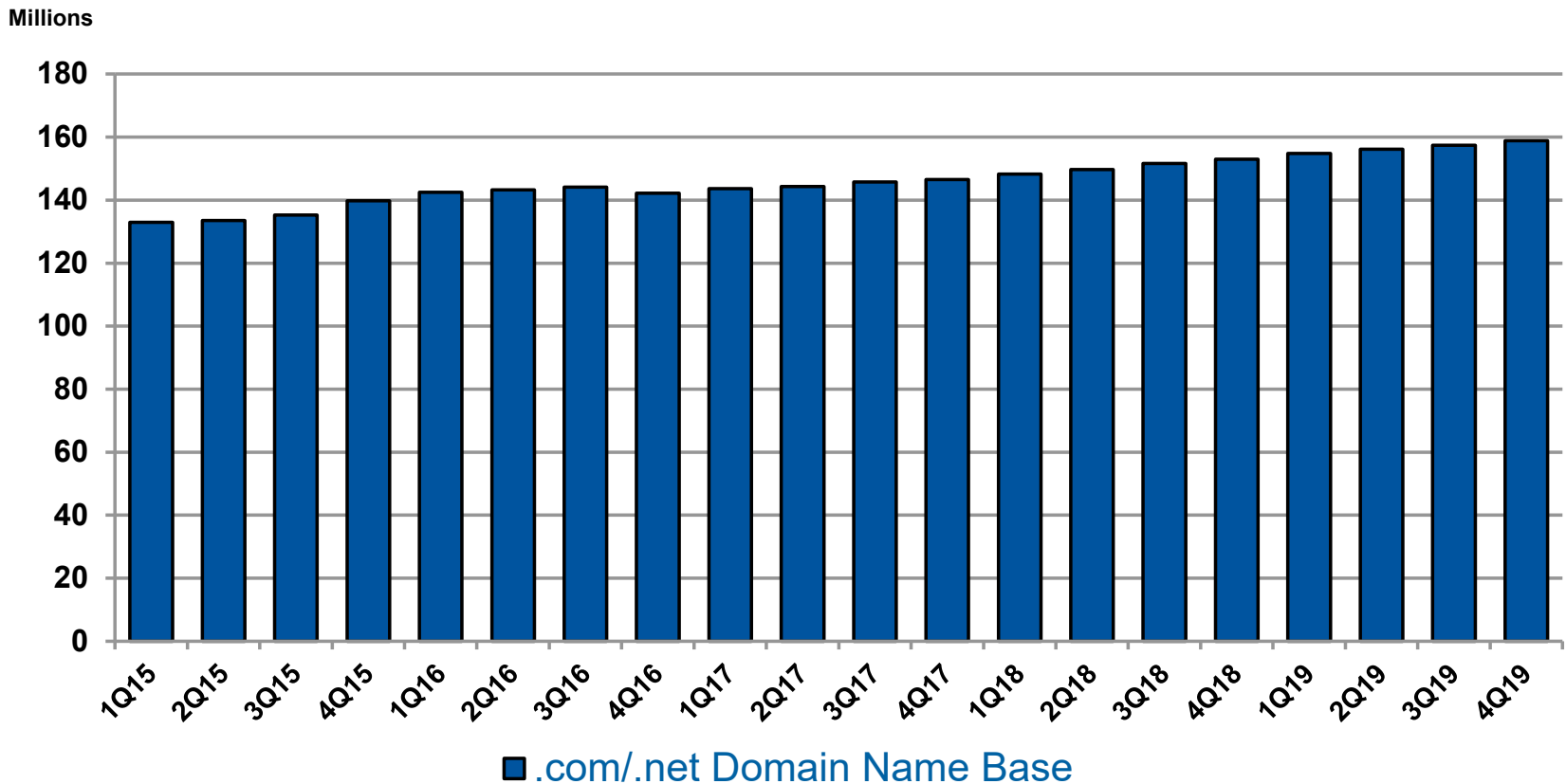
Financial Performance / Guidance

Closing / Q&A / Appendix

Business Highlights

Domain Name Base⁽¹⁾ at 158.8 Million Names, up 3.9% Y/Y

145.4 Million .com Names and 13.4 Million .net Names



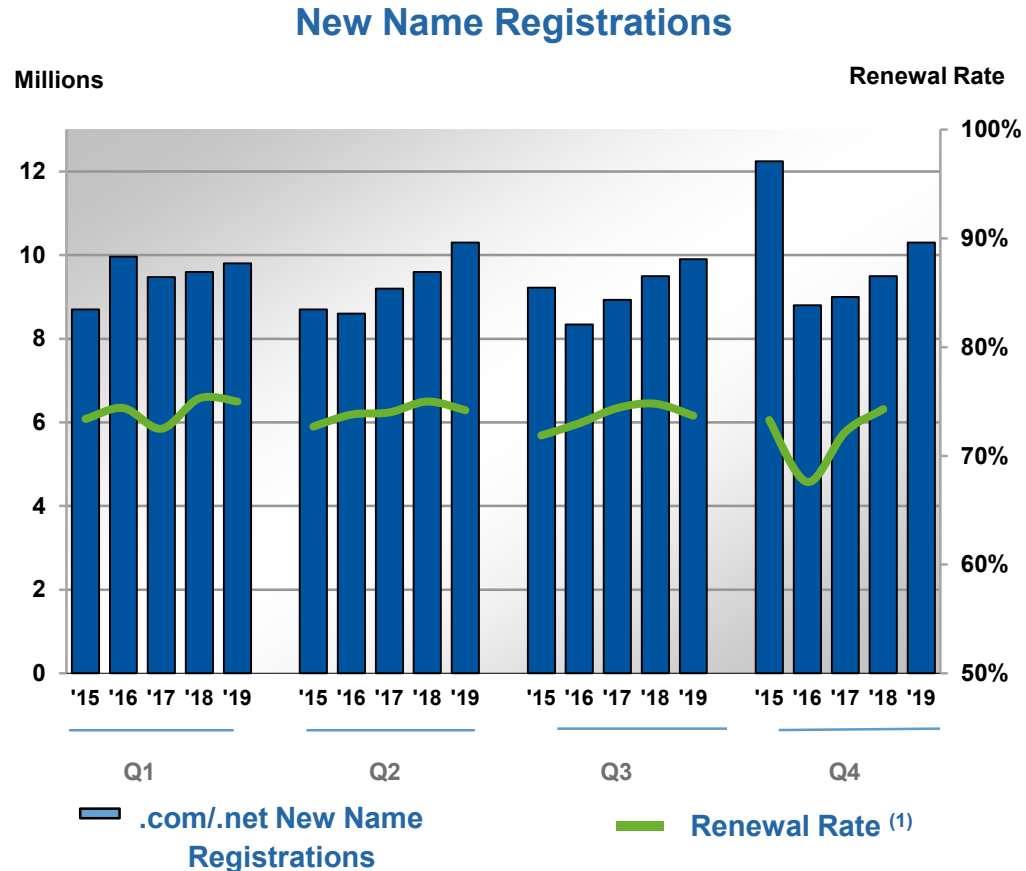
1) The domain name base as presented here is the active zone plus the number of domain names that are registered but not configured for use in the respective Top-Level Domain zone file plus the number of domain names that are in a client or server hold status.

Business Highlights

10.3 Million New Name Registrations in Q4 2019

Compared with 9.5 Million in Q4 2018

- Q3 2019 renewal rate 73.7%
 - Q4 2019 renewal rate expected to be approximately 73.7%⁽¹⁾⁽²⁾ compared with 74.3% in Q4 2018
- Ending Q4 2019 Domain Name Base increased by 1.46M registrations from prior quarter end
- 35.6M registrations expiring in Q1 2020 vs. 34.5M in Q1 2019
- Domain Name Base expected to increase by between 2.0% to 4.0% from end 2019 to end 2020⁽²⁾⁽³⁾



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

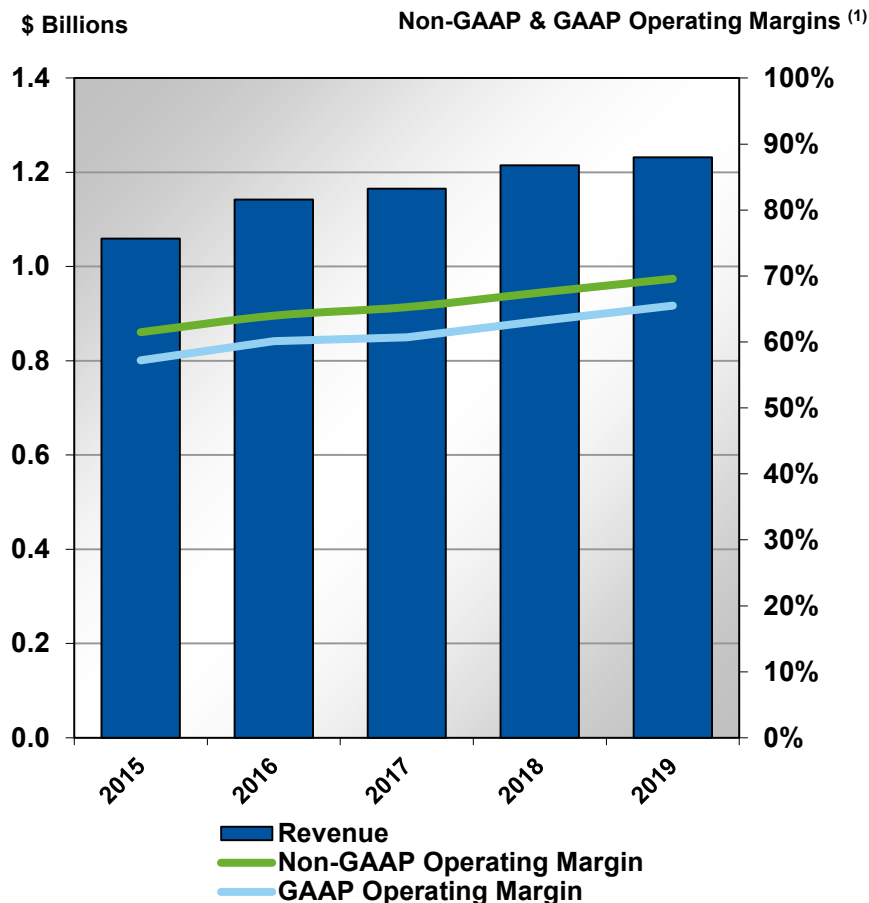
2) This guidance is based on historical seasonality and current market trends.

3) 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.

2019 Full Year Financial Performance

- Revenue of \$1.232B, up 1.4% y/y
- Operating Income
 - GAAP: \$806M
 - Non-GAAP: \$857M⁽¹⁾
- Operating Margin
 - GAAP Operating Margin 65.5%
 - Non-GAAP Operating Margin 69.6%⁽¹⁾
- Free Cash Flow of \$714M⁽²⁾
 - CapEx of \$40M
- Total cash, cash equivalents, and marketable securities of \$1.218B as of Dec. 31, 2019

Revenue & Profitability



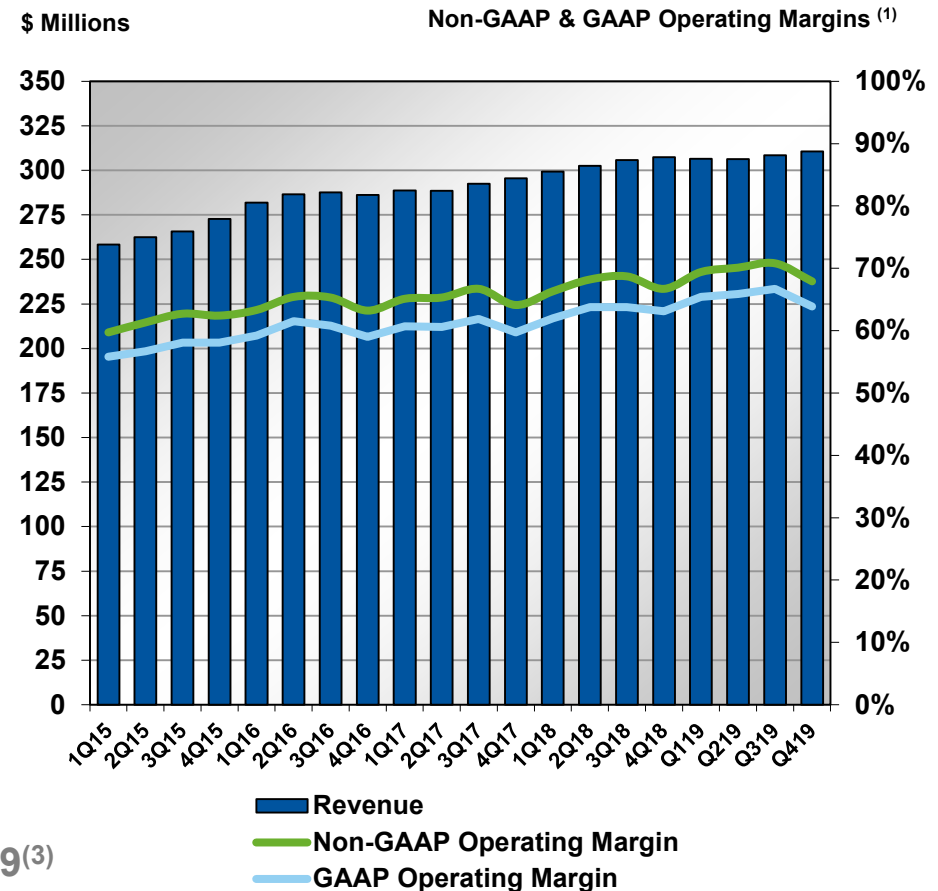
1) Please refer to “Summary of Non-GAAP Measures” for important information.

2) Free cash flow is non-GAAP financial measure defined as cash flow from operating activities, less capital expenditures. Please see Free Cash Flow Calculation in slide appendix for more detail.

Q4 2019 Financial Performance

Revenue & Profitability

- Revenue of \$311M, up 1.0% y/y
- GAAP operating margin of 63.9%
- GAAP diluted EPS of \$1.26
- Non-GAAP operating margin of 67.9%⁽¹⁾
- Non-GAAP diluted EPS of \$1.31⁽¹⁾
- Operating Cash Flow of \$194M
- Free Cash Flow of \$185M⁽²⁾
- 872 Full-Time Employees at Dec. 31, 2019⁽³⁾



1) See "Reconciliation of Non-GAAP Financial Measures" in slide appendix for important information.

2) Free cash flow is a non-GAAP financial measure defined as cash flow from operating activities, less capital expenditures. See Free Cash Flow Calculation in slide appendix for more detail.

3) Excluding interns.

Full Year 2020 Financial Guidance⁽¹⁾⁽²⁾

- **Revenue**
 - \$1.250 billion to \$1.265 billion
- **Domain Name Base Growth**
 - 2.0% to 4.0%
- **GAAP Operating Margin**
 - 64.5% to 65.5%
- **Interest Expense and Non-Operating Income, net**
 - \$68 million to \$75 million expense
- **Capital Expenditures**
 - \$45 million to \$55 million expense
- **GAAP Effective Tax Rate**
 - 18.0% to 21.0%

1) Our guidance is based on expectations about the outlook of our business in addition to our financial projections for interest income and expense.

2) 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.

Q&A Appendix

Non-GAAP Financial Measures

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 measures in quarterly earnings news releases, on investor conference calls and during investor conferences and related events. These non-GAAP financial measures do not include stock-based compensation, non-cash interest expense through June 30, 2018, and loss on debt extinguishment, which are included in the comparable GAAP financial measures. Non-GAAP net income is also adjusted for an income tax rate of 22 percent which differs from the GAAP income tax rate. The non-GAAP financial measures included in this presentation, include Adjusted EBITDA and free cash flow.

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, and unrealized gain / loss on hedging agreements and gain on the sale of a business.

Free cash flow is a non-GAAP financial measure defined as cash flow from operating activities, less capital expenditures.

Management believes that these non-GAAP financial measures supplement the GAAP financial measures 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 these non-GAAP financial measures is not meant to be considered in isolation nor as a substitute for financial measures prepared in accordance with GAAP.

The tables herein include a reconciliation of the non-GAAP financial measures to the comparable financial measures reported in accordance with GAAP for the given periods.

Reconciliation of Adjusted EBITDA & Free Cash Flow

Reconciliation of GAAP Net Income to Non-GAAP Adjusted EBITDA:

	Year Ended December 31, 2019
Net Income	\$ 612,299
Interest expense	90,611
Income tax expense	146,477
Depreciation and amortization	46,330
Stock-based compensation	50,626
Unrealized gain on hedging agreements	(235)
Gain on sale of business	(817)
Non-GAAP Adjusted EBITDA	\$ 945,291

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

(\$ Millions)	FY17	Q118	Q218	Q318	Q418	FY18	Q119	Q219	Q319	Q419	FY19
Cash Flow from Operating Activities	702.8	90.0	201.8	187.5	218.5	697.8	187.3	164.8	208.1	193.6	753.9
Acquisition of Property and Equipment, Net	(49.5)	(7.7)	(11.0)	(10.9)	(7.4)	(37.0)	(9.1)	(11.1)	(11.3)	(8.8)	(40.3)
Total Free Cash Flow	653.3	82.3	190.8	176.6	211.1	660.8	178.2	153.8	196.8	184.8	713.6

- Free Cash Flow is a non-GAAP financial measure defined as cash flow from operating activities, less capital expenditures.
- The sum of the amounts in the columns and rows may not match the total amounts shown due to rounding.

Reconciliation of Non-GAAP Financial Measures

(In thousands, except per share data)

	Three Months Ended					
	December 31, 2019		September 30, 2019		December 31, 2018	
	Operating Income	Net Income	Operating Income	Net Income	Operating Income	Net Income
GAAP as reported	\$ 198,566	\$ 148,325	\$ 205,616	\$ 153,913	\$ 193,966	\$ 182,195
Adjustments:						
Stock-based compensation	12,389	12,389	12,620	12,620	11,098	11,098
Tax adjustment		(6,768)		(5,774)		(2,193)
Non-GAAP	<u>\$ 210,955</u>	<u>\$ 153,946</u>	<u>\$ 218,236</u>	<u>\$ 160,759</u>	<u>\$ 205,064</u>	<u>\$ 191,100</u>
Revenues	\$ 310,543		\$ 308,421		\$ 307,452	
Non-GAAP operating margin	<u>67.9%</u>		<u>70.8%</u>		<u>66.7%</u>	
Diluted shares		117,658		118,569		121,329
Diluted EPS, non-GAAP		<u>\$ 1.31</u>		<u>\$ 1.36</u>		<u>\$ 1.58</u>

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

	Three Months Ended		
	December 31, 2019	September 30, 2019	December 31, 2018
Cost of revenues	\$ 1,675	\$ 1,725	\$ 1,652
Sales and marketing	889	864	579
Research and development	1,626	1,513	1,696
General and administrative	8,199	8,518	7,171
Total stock-based compensation expense	<u>\$ 12,389</u>	<u>\$ 12,620</u>	<u>\$ 11,098</u>

Reconciliation of Non-GAAP Financial Measures

(In thousands, except per share data)

	Year Ended December 31,			
	2019		2018	
	Operating Income	Net Income	Operating Income	Net Income
GAAP as reported	\$ 806,127	\$ 612,299	\$ 767,392	\$ 582,489
Adjustments:				
Stock-based compensation	50,626	50,626	52,504	52,504
Non-cash interest expense		—		5,719
Loss on debt extinguishment		—		6,554
Tax adjustment		(31,591)		(27,717)
Non-GAAP	<u>\$ 856,753</u>	<u>\$ 631,334</u>	<u>\$ 819,896</u>	<u>\$ 619,549</u>
Revenues	\$ 1,231,661		\$ 1,214,969	
Non-GAAP operating margin	<u>69.6%</u>		<u>67.5%</u>	
Diluted shares		118,968		122,661
Diluted EPS, non-GAAP		<u>\$ 5.31</u>		<u>\$ 5.05</u>

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

	Year Ended December 31,	
	2019	2018
Cost of revenues	\$ 6,739	\$ 6,835
Sales and marketing	3,755	4,972
Research and development	6,370	6,728
General and administrative	33,762	33,969
Total stock-based compensation expense	<u>\$ 50,626</u>	<u>\$ 52,504</u>

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