



Verisign

Q4 and Full Year 2018 Earnings Conference Call
February 7, 2019



VERISIGN

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, whether an amended .com Registry Agreement will include any or all of the changes permitted in Amendment 35; 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; 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 Dec. 31, 2017, 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

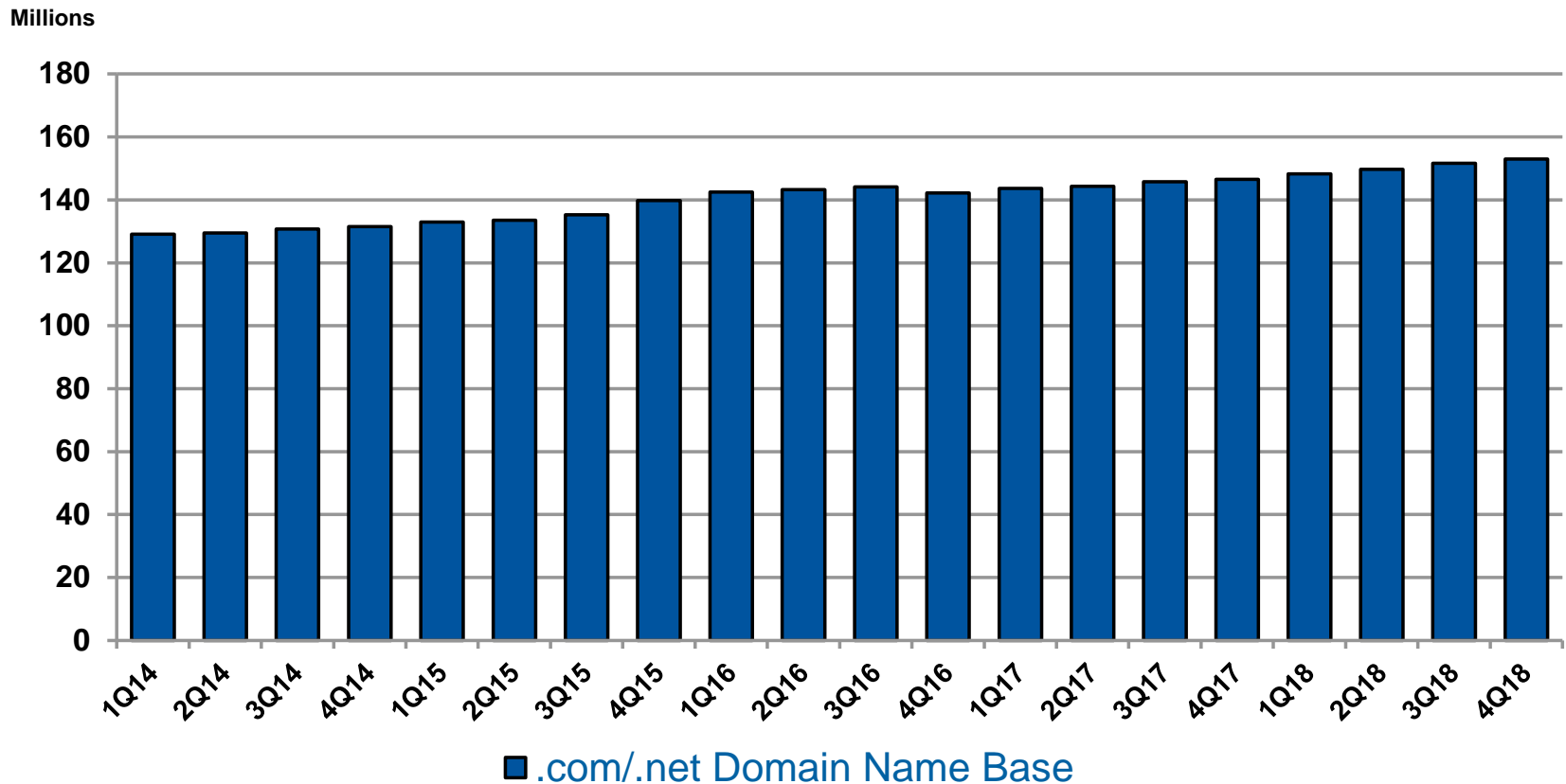
Financial Performance / Guidance

Closing / Q&A / Appendix

Registry Services Highlights

Domain Name Base⁽¹⁾ at 153.0 Million Names, up 4.5% Y/Y

139.0 Million .com Names and 14.0 Million .net Names



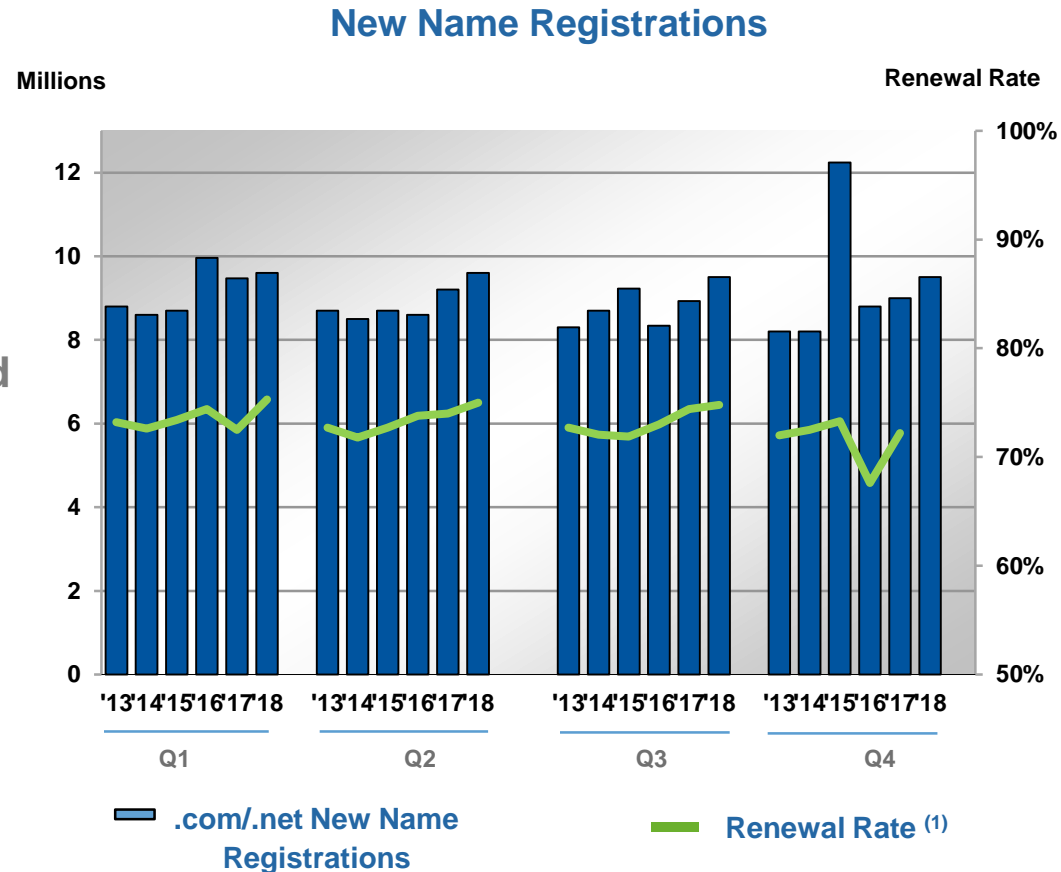
1) The domain name base as presented here is the active zone plus the number of domain names that are registered but not configured for use in the respective Top-Level Domain zone file plus the number of domain names that are in a client or server hold status. This data is not comparable to previous earnings presentations, (prior to first quarter 2015), where names in hold status were not included.

Registry Services Highlights

9.5 Million New Name Registrations in Q4 2018

Compared with 9.0 Million in Q4 2017

- Q3 2018 renewal rate 74.8%
 - Q4 2018 renewal rate expected to be approximately 74.2%⁽¹⁾⁽²⁾ compared with 72.2% in Q4 2017
- Ending Q4 2018 Domain Name Base increased by 1.29M registrations from prior quarter end
- 34.5M registrations expiring in Q1 2019 vs. 32.7M in Q1 2018
- Domain Name Base expected to increase by between 2.25% to 4.25% from end 2018 to end 2019⁽²⁾



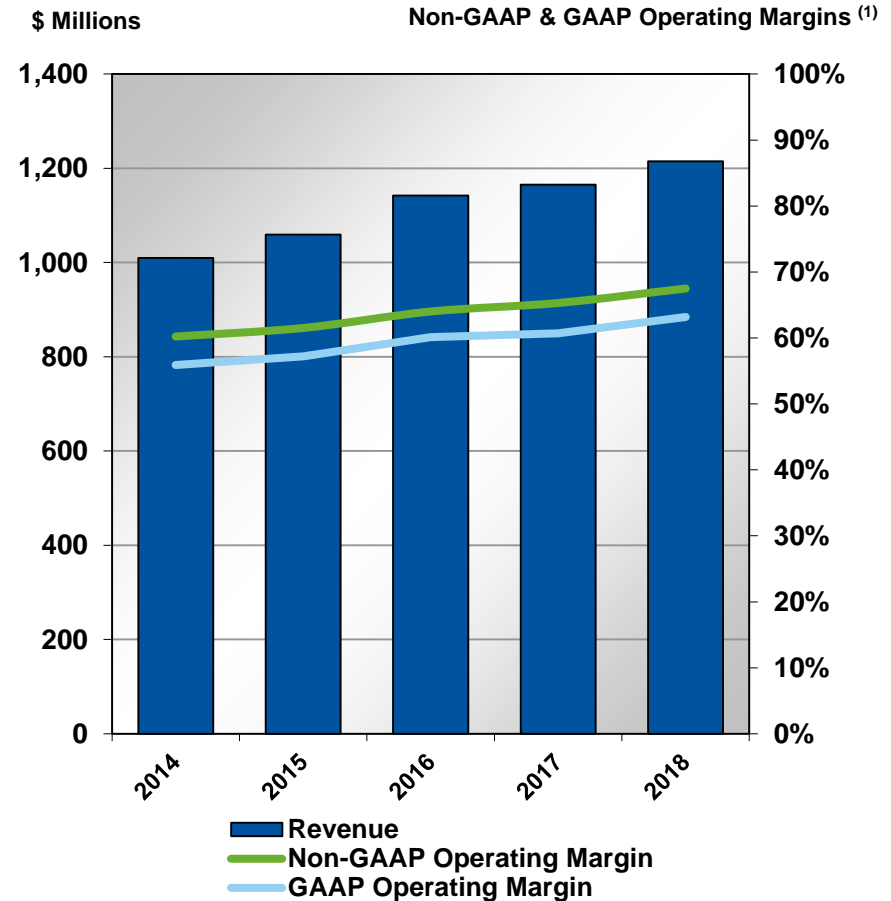
1) Renewal rates are not fully measurable until 45 days after the end of the quarter.

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

2018 Full Year Financial Highlights

- Revenue of \$1,215M, up 4.3% y/y
- Operating Income
 - GAAP: \$767M
 - Non-GAAP: \$820M⁽¹⁾
- Operating Margin
 - GAAP Operating Margin 63.2%
 - Non-GAAP Operating Margin 67.5%⁽¹⁾
- Free Cash Flow of \$661M⁽²⁾
 - CapEx of \$37M
- Total Liquidity⁽³⁾
 - \$1.27B⁽³⁾ of which \$504M was domestic as of Dec. 31, 2018

Revenue & Profitability



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

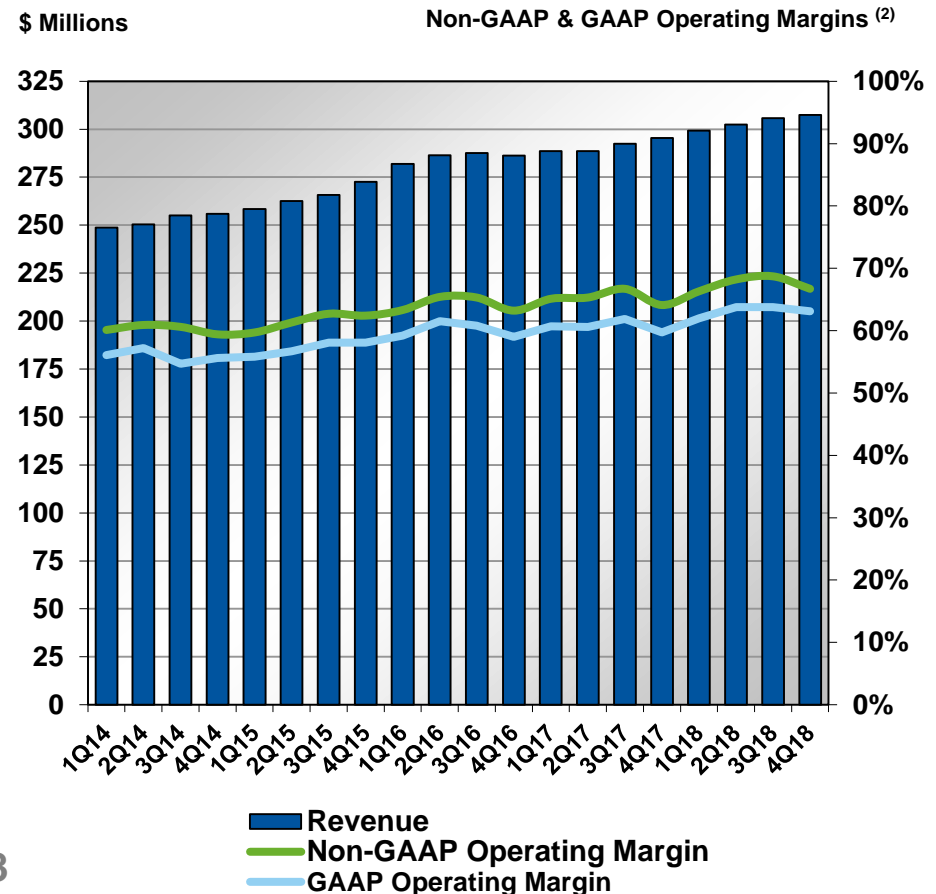
2) Free cash flow is non-GAAP financial measure defined as cash flow from operating activities, less capital expenditures. Please see Free Cash Flow Calculation in slide appendix for more detail.

3) Consists of cash, cash equivalents, and marketable securities.

Q4 2018 Financial Performance

Revenue & Profitability

- Revenue of \$307M, up 4.0% y/y
- GAAP operating margin of 63.1%
- GAAP diluted EPS of \$1.50⁽¹⁾
- Non-GAAP operating margin of 66.7%⁽²⁾
- Non-GAAP diluted EPS of \$1.58⁽¹⁾
- Operating Cash Flow of \$219M
- Free Cash Flow of \$211M⁽²⁾
- 900 Full-Time Employees at Dec 31, 2018



- 1) During the 4th quarter Verisign recorded a \$54.8 million pre-tax gain related to the sale of Verisign Security Services' customer contracts to Neustar. This gain increased GAAP net income by \$52.0 million, GAAP diluted EPS by \$0.43, Non-GAAP net income by \$42.8 million, and Non-GAAP diluted EPS by \$0.36.
- 2) See "Reconciliation of Non-GAAP Financial Measures" in slide appendix for important information.
- 3) 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.

Full Year 2019 Financial Guidance⁽¹⁾

- **Revenue**
 - \$1.215 billion to \$1.235 billion
- **Domain Name Base Growth**
 - 2.25% to 4.25%
- **Non-GAAP Operating Margin⁽²⁾**
 - 67.5% to 68.5%
- **Interest Expense and Non-Operating Income, net**
 - \$42 million to \$49 million expense
- **Capital Expenditures**
 - \$45 million to \$55 million expense
- **Cash Taxes**
 - \$95 million to \$115 million

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. See “Reconciliation of Non-GAAP Financial Guidance” in slide appendix.

2) 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.

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 information in quarterly earnings news 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, non-cash interest expense through June 30, 2018, and loss on debt extinguishment. Non-GAAP net income is decreased by amounts accrued for contingent interest payable through Aug. 15, 2017, related to the subordinated convertible debentures, and is adjusted for an income tax rate of 22 percent starting from the first quarter of 2018, 25 percent for the second through the fourth quarters of 2017, and 26 percent for the first quarter of 2017, all 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 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.

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 December 31, 2018		Three Months Ended September 30, 2018		Three Months Ended December 31, 2017	
	Operating Income	Net Income	Operating Income	Net Income	Operating Income	Net Income
GAAP as reported	\$ 193,966	\$ 182,195	\$ 194,997	\$ 137,680	\$ 176,432	\$ 102,837
Adjustments:						
Stock-based compensation	11,098	11,098	15,130	15,130	12,864	12,864
Non-cash interest expense		—		—		3,851
Tax adjustment		(2,193)		(1,933)		(480)
Non-GAAP	<u>\$ 205,064</u>	<u>\$ 191,100</u>	<u>\$ 210,127</u>	<u>\$ 150,877</u>	<u>\$ 189,296</u>	<u>\$ 119,072</u>
Revenues	\$ 307,452		\$ 305,777		\$ 295,501	
Non-GAAP operating margin	<u>66.7%</u>		<u>68.7%</u>		<u>64.1%</u>	
Diluted shares		121,329		122,261		124,257
Diluted EPS, non-GAAP		<u>\$ 1.58</u>		<u>\$ 1.23</u>		<u>\$ 0.96</u>

SUPPLEMENTAL FINANCIAL INFORMATION

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

	Three Months Ended December 31, 2018		Three Months Ended September 30, 2018		Three Months Ended December 31, 2017	
Cost of revenues	\$	1,652	\$	1,755	\$	1,719
Sales and marketing		579		1,451		1,433
Research and development		1,696		1,623		1,560
General and administrative		7,171		10,301		8,152
Total stock-based compensation expense	<u>\$</u>	<u>11,098</u>	<u>\$</u>	<u>15,130</u>	<u>\$</u>	<u>12,864</u>

Reconciliation of Non-GAAP Financial Measures

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

	Year Ended December 31,			
	2018		2017	
	Operating Income	Net Income	Operating Income	Net Income
GAAP as reported	\$ 767,392	\$ 582,489	\$ 707,722	\$ 457,248
Adjustments:				
Stock-based compensation	52,504	52,504	52,907	52,907
Unrealized loss on contingent interest derivative on the subordinated convertible debentures		—		893
Non-cash interest expense		5,719		14,678
Contingent interest payable on subordinated convertible debentures		—		(9,445)
Loss on debt extinguishment		6,554		—
Tax adjustment		(27,717)		(24,352)
Non-GAAP	<u>\$ 819,896</u>	<u>\$ 619,549</u>	<u>\$ 760,629</u>	<u>\$ 491,929</u>
Revenues	\$ 1,214,969		\$ 1,165,095	
Non-GAAP operating margin	<u>67.5%</u>		<u>65.3%</u>	
Diluted shares		122,661		124,180
Diluted EPS, non-GAAP		<u>\$ 5.05</u>		<u>\$ 3.96</u>

SUPPLEMENTAL FINANCIAL INFORMATION

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

	Year Ended December 31,	
	2018	2017
Cost of revenues	\$ 6,835	\$ 7,030
Sales and marketing	4,972	5,688
Research and development	6,728	6,113
General and administrative	33,969	34,076
Total stock-based compensation expense	<u>\$ 52,504</u>	<u>\$ 52,907</u>

Free Cash Flow Calculation

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

(\$M)	FY15	Q116	Q216	Q316	Q416	FY16	Q117	Q217	Q317	Q417	FY17	Q118	Q218	Q318	Q418	FY18
Cash Flow from Operating Activities	670.0	149.6	167.4	171.1	205.0	693.0	148.2	180.7	174.7	199.2	702.8	90.0	201.8	187.5	218.5	697.8
Acquisition of Property and Equipment, Net	(40.7)	(7.1)	(6.4)	(6.4)	(6.7)	(26.6)	(9.7)	(9.3)	(21.6)	(8.9)	(49.5)	(7.7)	(11.0)	(10.9)	(7.4)	(37.0)
Total Free Cash Flow	629.3	142.6	161.0	164.6	198.3	666.4	138.5	171.4	153.0	190.3	653.3	82.3	190.8	176.6	211.1	660.8

- 1) Free Cash Flow is a non-GAAP financial measure defined as cash flow from operating activities, less capital expenditures.
- 2) 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 Guidance

(Reconciliation of Financial Guidance as given on slide 8 of February 2019 earnings presentation)

1) Full year 2019 non-GAAP operating margin guidance:

67.5% to 68.5%

GAAP operating margin
Stock-based compensation
Non-GAAP operating margin

	Low	High
	63.1%	64.1%
	4.4%	4.4%
	67.5%	68.5%

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