



TROUBLE AHEAD FOR GODADDY?

On August 8th of this year, Bob Parson's pulled his application for GoDaddy to become a publicly traded company.

According to Bob, (<http://www.bobparsons.com>) there were three reasons he pulled the plug on the IPO:

1. Market conditions
2. The Quiet Period
3. We don't have to go public

If you read Bob's comments about the "poor market conditions," well I'm not sure if he's the one who doesn't understand the stock market or if he doesn't think the reader understands.

Just to clarify the process (and allow you to see how silly many of Mr. Parson's comments are) let's look at an extremely simplified synopsis of a company "going public."

Let's say you own a business selling a product favored by my college professors: widgets. So you're making widgets and things are going well. Sales are rising quickly and according to your forecasts, by this time next year, you're going to need to increase your production by either buying a new manufacturing facility or by opening up an additional facility to handle the increase demand.

Now comes the dilemma. When any company expands, it's much like when a grasshopper sheds it's shell. There is a period of time when the business is very vulnerable as it passes from one phase to another. For a period of time, the business will literally exceed it's own grasp.

In our widget example, let's say capacity at the current facility is 30,000 units each month. When demand rises above 30,000 units per month, the company has to find bigger or more facilities. So, the company moves to a plant where they have the capacity to manufacture 100,000 units per month. That's great, however there will be a period of time, while demand edges up from 30,001 units to let's say 50,000 units, during which the added costs of the new facility will be putting a real strain on the company. It's possible that the company will actually be operating at

a loss until demand reaches 50,001 units per month because of the new facilities cost.

So as the owner of this widget manufacturing company, YOU have a dilemma. Do you march down to the bank and ask for an increase in your line of credit? Keep in mind, you KNOW that the first year after the expansion that your widget company will probably be losing money. Asking for a bank loan is asking for another payment obligation during a time when cash will be extremely tight for the company.

The other solution is to take break your company up and sell shares in your company. So, instead of asking the bank for the \$5 million you need for expansion, you could decide to sell of part of your company to raise the capital. This way, there are no loans to repay during your anticipated “lean time” in the future.

There are two ways of doing this. You can simply sell “shares” in your company as a private individual. Go to your Mom, your Dad, your family and your friends and say, “Hey, I’m selling off part of my business. I’ve created 1,000,000 shares and you can buy a share for \$5.” Because they’re your family and friends, they know you and trust you. But they may not have \$5 million between them to invest in your company. So the other option is to take your company public. This means selling shares of your company to total strangers: people who want to make an investment in your company and who want a rate of return.

Since your family and friends don’t have the \$5 million you need, you, the owner of the widget company, decide to go public. You then hire an investment banking firm to arrange an “initial public offering” (IPO) of your stock. The investment banking firm provides potential investors with a prospectus that includes information about the stock and your company. Included in the prospectus is all of the company’s financial information so that investors can make an informed decision about whether or not to invest in the company.

Part of the IPO process is jumping through the hoops established by the SEC: the Securities Exchange Commission. The SEC oversees the key participants in the securities world, including securities exchanges, securities brokers and dealers, investment advisors, and mutual funds. The SEC is concerned primarily with promoting the disclosure of important market-related information, maintaining fair dealing, and protecting against fraud.

One of the rules the SEC has is a “quiet period.” That means from the time your company files with the SEC your intent to offer stock in your

company for sale is made until one month after the stock hits the market, the company going public cannot say or do anything that can be construed as “hyping” its own stock. In other words, your stock has to stand on its own merits. You have to simply let the financials speak for themselves.

Which brings us back to GoDaddy: When Bob filed his financials with the SEC, he didn’t like the picture those financials projected. Because of the quiet period, he wasn’t able to “defend” himself in the public.

The picture painted by the SEC filing is not pretty. While Bob heralds GoDaddy’s best quarter ever, it’s scary taking a look at the figures.

According to Bob, “During the 2nd quarter The Go Daddy Group Inc. had GAAP revenue of \$56,985,000, a net accounting loss of \$733,000 and positive cash flow from operations of \$14,240,000.

This compares to the 2nd Qtr 2005 when our GAAP revenue was \$31,082,000, and we had a net accounting loss of \$3,389,000, and positive cash flow from operations was \$6,871,000.”

According to Form S-1 the picture is a little different. It doesn’t show Bob’s rosy “positive cash flow from operations” figures. The SEC S-1 Form just shows net losses and an ugly “Basic and diluted net loss per share” for each year since GoDaddy was founded in 2002.

Of course, this is why Bob Parsons pulled his IPO: because when faced with the “bare financials” required by the SEC, now everyone can see that GoDaddy is losing money and has since its inception.

How does this affect you? Over the weekend, a client of mine tried to register a domain name with GoDaddy and she got a funny message:

“If the domain registration is successful, the domain(s) will be active in your account shortly. If for some reason your domain registration should fail, you will receive an email notification from us with further instruction.”

IF THE DOMAIN REGISTRATION IS SUCCESSFUL?!?!?

IF?!?!?

It doesn’t look like things are going well at GoDaddy. I’ve never been a fan. I’ve registered two domain names through them a few years back to test the service. After all, with a cache of over 20 domain names, I could

save \$11 per year per domain name. What I found with my account, and with the accounts of clients since, is that domain names registered through GoDaddy tend to take longer to resolve than with other top level ICANN registrars.

With that said, it's typically not a problem for my clients who are either pointing a domain name once or leaving it or who are just grabbing promising domain names and not using them. However, I use my [Virtual Impax](#) web site as a "scout" for hosting providers. I went through 6 hosting providers in the first three months of 2005 alone. (It's what I do for my hosting clients so YOU don't have to go through that hell!) For me, the Go Daddy domain registration wasn't an option.

So when my clients tell me that they're using Go Daddy, in the past I have said "Whatever." It's cheaper than any other domain name registry.

Until now.

I'm not saying GoDaddy is going under tomorrow. But I am saying that their business model doesn't appear to be sound.

GoDaddy is offering domain names as a "loss leader," hoping that once you register your domain name at a low, low loss leader price, after which you'll go ahead and use GoDaddy hosting services. (That would explain the difficulty in pointing the domain names to other servers.) From the looks of the SEC S-1 Form, it doesn't appear to be working well for them.

While Bob Parsons insists that the IPO wasn't necessary for the health of his business, one wonders why he would head down this path if it weren't. According to his S-1 Form, Go Daddy's revenue fell short of expenses by 11,605,000 in 2005.

<http://www.sec.gov/Archives/edgar/data/1362108/000089161806000217/f19665orsv1.htm>