



## DigitalOcean Announces First Quarter 2021 Financial Results

*Revenue of \$93.7 million, grew 29% and ARR Increased to \$388 million, up 30%*

*Adjusted EBITDA Margin Expanded by 740 bps to 33%*

*Capex as a Percentage of Revenue decreased by more than 1800 basis points year over year*

NEW YORK--([BUSINESS WIRE](#))-- DigitalOcean Holdings, Inc. (NYSE: DOCN), the cloud for developers, startups and SMBs, today announced results for its first quarter ended March 31, 2021.

"We are pleased that in our first quarter as a public company, we delivered faster revenue growth, higher adjusted EBITDA margin and made a substantial improvement in our capital efficiency," said Yancey Spruill, CEO of DigitalOcean. "Our initial public offering was an exciting milestone for DigitalOcean and now we are focused on moving forward into the next phase of our mission to simplify cloud computing for software developers and SMBs."

### First Quarter 2021 Financial Highlights:

- Revenue was \$93.7 million, an increase of 29% year-over-year.
- Annual Run-Rate Revenue (ARR) ended the quarter at \$388 million, an increase of 30% year-over-year.
- Adjusted Gross Profit of \$73.5 million or 79% of revenue.
- Adjusted EBITDA was \$30.7 million and adjusted EBITDA margin was 33% of revenue as compared to adjusted EBITDA of \$18.4 million and adjusted EBITDA margin of 25% in the prior year period.
- Capital expenditures were \$23.8 million or 25% of revenue as compared to \$32.2 million or 44% of revenue in the prior year period.
- The company completed an initial public offering and sold 16.5 million shares for net proceeds of \$723.1 million and used a portion to pay off all outstanding debt.
- Cash, cash equivalents, and restricted cash were \$562.3 million with zero debt as of March 31, 2021.

### First Quarter 2021 Operational Highlights:

- Total customers of approximately 585K at the end of the quarter, up 7% as compared to the first quarter 2020.

- Net Dollar Retention (NDR) rate was 107%, an increase of 600 basis points from the first quarter 2020.
- Average Revenue Per Customer (ARPU) in the quarter was \$53.68, which increased 20% over the first quarter 2020.

**Financial Outlook:**

Based on information available as of May 6, 2021, for the second quarter of 2021 we expect:

- Total revenue of \$97 to \$99 million.
- Adjusted EBITDA margin of 30% to 31%.
- Fully diluted weighted average shares outstanding of 117 to 119 million shares.

For the full year 2021, we expect:

- Total revenue of \$405 to \$409 million.
- Adjusted EBITDA margin of 30% to 31%.
- Fully diluted weighted average shares outstanding of 115 to 117 million shares.
- Capital expenditures as a percentage of revenue of 25% to 26%.

A reconciliation of non-GAAP guidance measures to corresponding GAAP measures is not available on a forward-looking basis without unreasonable effort due to the uncertainty regarding, and the potential variability of, expenses that may be incurred in the future. Stock-based compensation expense-related charges, including employer payroll tax-related items on employee stock transactions, are impacted by the timing of employee stock transactions, the future fair market value of our common stock, and our future hiring and retention needs, all of which are difficult to predict and subject to constant change. Accordingly, reconciliation is not available without unreasonable effort, although it is important to note that these factors could be material to our results computed in accordance with GAAP.

**Conference Call Information:**

DigitalOcean will host a conference call today, May 6, 2021, to review its results at 8:00 a.m. ET. The call can be accessed by dialing (833) 282-0024 from the United States or (236) 714-3495 internationally with conference ID 2068907. A live webcast and replay of the conference call can be accessed from the DigitalOcean investor relations website at <http://investors.digitalocean.com>.

Following the completion of the call, a telephonic replay will be available through 11:59 PM ET on May 13, 2021 at (800) 585-8367 from the United States or (416) 621-4642 internationally with conference ID 2068907.

**About DigitalOcean**

DigitalOcean simplifies cloud computing so developers and businesses can spend more time building software that changes the world. With its mission-critical infrastructure and fully managed offerings, DigitalOcean helps developers, startups and small and medium-sized businesses (SMBs) rapidly build, deploy and scale applications to accelerate innovation and increase productivity and agility. DigitalOcean combines the power of simplicity, community, open source and customer support so customers can spend less time managing their infrastructure and more time building innovative applications that drive business growth.

**Forward-Looking Statements**

This release contains 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, regarding our performance, including but not limited to statements in the section titled “Financial Outlook.” The forward-looking statements contained in this release and the accompanying earnings call referenced in this release are subject to known and unknown risks, uncertainties, assumptions, and other factors that may cause actual results or outcomes to be materially different from any future results or outcomes expressed or implied by the forward-looking statements. These risks, uncertainties, assumptions, and other factors include, but are not limited to: (1) our recent growth may not be indicative of our future growth; (2) our history of operating losses; (3) our limited operating history; (4) our ability to attract and retain customers and/or expand usage of our platform by such customers; (5) breaches in our security measures allowing unauthorized access to our platform, our data, or our customers’ data; (6) our ability to release updates and new features to our platform and adapt and respond effectively to rapidly changing technology or customer needs; (7) the competitive markets in which we participate; (8) the rapidly evolving laws and industry standards that relate to privacy, data security, liability for service providers regarding the activities of customers, and access to the internet; (9) risks associated with successfully managing our growth; and (10) general market, political, economic, and business conditions.

Further information on these and additional risks, uncertainties, assumptions and other factors that could cause actual results or outcomes to differ materially from those included in or contemplated by the forward-looking statements contained in this release are included under the caption “Risk Factors” and elsewhere in our Form 10-Q that will be filed for the first quarter ended March 31, 2021 and other filings and reports we make with the Securities and Exchange Commission from time to time, including our final prospectus dated March 23, 2021 and filed with the SEC pursuant to Rule 424(b)(4) on March 24, 2021.

We operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this release. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur. The forward-looking statements made in this release relate only to events as of the date on which the statements are made. We assume no obligation to, and do not currently intend to, update any such forward-looking statements after the date of this release.

### **About Non-GAAP Financial Measures**

To supplement our consolidated financial statements prepared and presented in accordance with generally accepted accounting principles in the United States, or GAAP, we use certain non-GAAP performance financial measures, as described below, to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe the following non-GAAP measures are useful in evaluating our operating performance. We are presenting these non-GAAP financial measures because we believe, when taken collectively, they may be helpful to investors because they provide consistency and comparability with past financial performance.

However, non-GAAP financial measures have limitations in their usefulness to investors because they have no standardized meaning prescribed by GAAP and are not prepared under any comprehensive set of accounting rules or principles. In addition, other companies, including companies in our industry, may calculate similarly titled non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. As a result, our non-GAAP financial measures are presented for supplemental informational purposes only and should not be considered in isolation or as a substitute for our consolidated financial statements presented in accordance with GAAP. Please see the tables included at the end of this release for the reconciliation of GAAP to non-GAAP results.

### **Adjusted Gross Profit and Adjusted Gross Margin**

We believe adjusted gross profit and adjusted gross margin, when taken together with our GAAP financial results, provides a meaningful assessment of our performance, and is useful for the preparation of our annual operating budget and quarterly forecasts.

We define adjusted gross profit as gross profit exclusive of stock-based compensation, amortization of capitalized internal-use software development costs and depreciation of our data center equipment included within Cost of revenue. We exclude stock-based compensation, which is a non-cash item, because we do not consider it indicative of our core

operating performance. We exclude depreciation and amortization, which primarily relates to our investments in our data center servers that are long lived assets with an economic life of five years, because it may not reflect our current or future cash spending levels to support our business. While we intend to spend a significant amount on capital expenditures on an absolute basis in the coming years, our capital expenditures as a percentage of revenue has declined significantly and will continue to decline. We define adjusted gross margin as a percentage of adjusted gross profit to revenue.

### **Adjusted EBITDA and Adjusted EBITDA Margin**

We define adjusted EBITDA as net loss attributable to common stockholders, adjusted to exclude depreciation and amortization, stock-based compensation, interest expense, income tax expense, loss on extinguishment of debt, restructuring and severance expense, asset impairment, revaluation of warrants and other charges. We believe that adjusted EBITDA, when taken together with our GAAP financial results, provides meaningful supplemental information regarding our operating performance and facilitates internal comparisons of our historical operating performance on a more consistent basis by excluding certain items that may not be indicative of our business, results of operations or outlook. In particular, we believe that the use of adjusted EBITDA is helpful to our investors as it is a measure used by management in assessing the health of our business, determining incentive compensation, evaluating our operating performance, and for internal planning and forecasting purposes.

### **Key Business Metrics:**

We utilize the key metrics set forth below to help us evaluate our business and growth, identify trends, formulate financial projections and make strategic decisions.

#### **Customers**

We define a customer at the end of any period as a person or entity who has incurred usage in the period and, as a result, has generated an invoice of greater than \$0 for that period. We treat each customer that generates an invoice as a unique customer, and a single organization with multiple divisions, segments or subsidiaries may be counted as multiple customers if they separately signed up on our platform.

#### **ARPU**

We calculate ARPU on a monthly basis as our total revenue in that period divided by the number of customers determined as of the last day of that period. For a quarterly or annual period, ARPU is determined as the weighted average monthly ARPU over such three or 12-month period.

#### **ARR**

We calculate ARR at a point in time by multiplying the latest monthly period's revenue by 12.

#### **Net Dollar Retention Rate**

We calculate net dollar retention rate monthly by starting with the revenue from the cohort of all customers during the corresponding month 12 months prior, or the Prior Period Revenue. We then calculate the revenue from these same customers as of the current month, or the Current Period Revenue, including any expansion and net of any contraction or attrition from these customers over the last 12 months. The calculation also includes revenue from customers that generated revenue before, but not in, the corresponding month 12 months prior, but subsequently generated revenue in the current month and are therefore reflected in the Current Period Revenue. We include this group of re-engaged customers in this calculation because our customers frequently use our platform for projects that stop and start over time. We then divide the total Current Period Revenue by the total Prior Period Revenue to arrive at the net dollar retention rate for the relevant month. For a quarterly or annual period, the net dollar retention rate is determined as the average monthly net dollar retention rates over such three or 12-month period.

#### **Capital Expenditures as a Percentage of Revenue**

We calculate capital expenditures as a percentage of revenue by dividing total capital expenditures during the period, including purchases of intangible assets, seller financed equipment purchases and acquisition of property and equipment from capital leases, by revenue.

**DIGITALOCEAN HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share amounts)  
(unaudited)

	March 31, 2021	December 31, 2020
Cash and cash equivalents	\$ 560,053	\$ 100,311
Accounts receivable, less allowance for doubtful accounts of \$2,893 and \$3,104, respectively	28,941	26,799
Prepaid expenses and other current assets	18,288	20,843
Total current assets	607,282	147,953
Property and equipment, net	242,722	238,956
Restricted cash	2,226	2,226
Goodwill	2,674	2,674
Intangible assets	34,573	34,649
Deferred tax assets	83	82
Other assets	3,705	3,712
Total assets	\$ 893,265	\$ 430,252
Accounts payable	15,149	12,433
Accrued other expenses	16,756	27,025
Deferred revenue	4,920	4,873
Current portion of long-term debt	—	17,468
Other current liabilities	9,224	22,986
Total current liabilities	\$ 46,049	\$ 84,785
Deferred tax liabilities	206	211
Long-term debt	—	242,215
Other long-term liabilities	1,900	2,061
Total liabilities	\$ 48,155	\$ 329,272
Commitments and Contingencies		
Convertible preferred stock	\$ —	\$ 173,074
Preferred stock (\$0.000025 par value per share; 10,000,000 and 0 shares authorized; 0 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively)	\$ —	\$ —

Common stock (\$0.000025 par value; 750,000,000 and 111,400,000 shares authorized; 108,305,374 and 45,299,339 issued; and 106,337,146 and 43,331,111 outstanding as of March 31, 2021 and December 31, 2020, respectively)

Treasury stock, at cost (1,968,228 shares at March 31, 2021

and December 31, 2020)

Additional paid-in capital

Accumulated other comprehensive loss

Accumulated deficit

Total stockholders' equity (deficit)

Total liabilities, convertible preferred stock and stockholders' equity (deficit)

2

1

(4,598)

1,020,313

(233)

(170,374)

\$ 845,110

\$

893,265

(4,598)

99,783

(245)

(167,035)

\$ (72,094)

\$

430,252

# DIGITALOCEAN HOLDINGS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

### Three Months Ended March 31,

	2021	2020
Revenue	\$ 93,661	\$ 72,792
Cost of revenue	39,544	34,683
Gross profit	54,117	38,109
Operating expenses:		
Research and development	22,402	19,477
Sales and marketing	10,421	9,454
General and administrative	18,040	21,665
Total operating expenses	50,863	50,596
Net income (loss) from operations	3,254	(12,487)
Other (income) expense:		
Interest expense	2,256	3,516
Loss on extinguishment of debt	3,435	259
Other (income) expense, net	(94)	(77)
Other (income) expense	5,597	3,698
Loss before income taxes	(2,343)	(16,185)
Income tax expense	996	748
Net loss attributable to common stockholders	\$ (3,339)	\$ (16,933)

Net loss per share attributable to common stockholders,			
basic and diluted	\$	(0.07)	\$ (0.42)
Weighted-average shares used to compute net loss per			
share, basic and diluted		49,432	39,945

**DIGITALOCEAN HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	Three Months Ended March 31,	
	2021	2020
<b>Operating activities</b>		
Net loss	\$ (3,339)	\$ (16,933)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	20,951	17,394
Loss on impairment	—	538
Stock-based compensation	6,624	9,382
Non-cash interest expense	205	592
Loss on extinguishment of debt	3,435	259
Revaluation of warrants	(556)	3
Bad debt expense	1,607	2,654
Other	(335)	(165)
Changes in operating assets and liabilities:		
Accounts receivable	(3,749)	(5,154)
Prepaid expenses and other current assets	2,554	(1,910)
Accounts payable and accrued expenses	(7,413)	(5,151)
Deferred revenue	48	(90)
Other assets and liabilities	(241)	(99)
<b>Net cash provided by operating activities</b>	<b>19,791</b>	<b>1,320</b>
<b>Investing activities</b>		
Capital expenditures - property and equipment	(22,398)	(20,674)
Capital expenditures - internal-use software development	(1,370)	(3,923)
Purchase of intangible assets	—	(3,630)
Proceeds from sale of equipment	81	—
<b>Net cash used in investing activities</b>	<b>(23,687)</b>	<b>(28,227)</b>
<b>Financing activities</b>		
Repayment of capital leases	—	(230)
Repayment of notes payable	(33,213)	(3,304)
Proceeds from third-party secured financings	—	7,058

Repayment of term loan	(166,814)	(70,313)
Proceeds from issuance of term loan	—	170,000
Repayment of borrowings under revolving credit facility	(63,200)	(84,500)
Proceeds from borrowings under revolving credit facility	—	63,200
Payment of debt issuance costs	—	(3,272)
Proceeds from the issuance of common stock under stock plans	3,740	5,970
Payment of initial public offering costs	—	(150)
Proceeds from initial public offering, net of underwriting discounts and commissions and other offering costs	723,125	—
<b>Net cash provided by financing activities</b>	<b>463,638</b>	<b>84,459</b>
Increase in cash, cash equivalents and restricted cash	459,742	57,552
Cash, cash equivalents and restricted cash - beginning of period	102,537	35,886
<b>Cash, cash equivalents and restricted cash - end of period</b>	<b>\$ 562,279</b>	<b>\$ 93,438</b>

**Supplemental disclosures of cash flow information:**

Cash paid for interest	\$ 2,000	\$ 2,786
Cash paid for taxes (net of refunds)	463	394

**Non-cash investing and financing activities:**

Capitalized stock-based compensation	\$ 62	\$ 133
Property and equipment received but not yet paid	18,473	21,771
Seller financed equipment purchases	—	3,927
Costs related to initial public offering included in accounts payable and accrued liabilities	428	—

**DIGITALOCEAN HOLDINGS, INC.**  
**RECONCILIATION OF GAAP TO NON-GAAP DATA**  
(in thousands)  
(unaudited)

**Adjusted Gross Profit and Adjusted Gross Margin**

	<b>Three Months Ended March 31,</b>	
	<b>2021</b>	<b>2020</b>
Gross profit	\$ 54,117	\$ 38,109
Adjustments:		
Depreciation and amortization	19,225	16,048
Stock-based compensation	196	24
Adjusted gross profit	<u>\$ 73,538</u>	<u>\$ 54,181</u>
Gross margin	58%	52%
Adjusted gross margin	79%	74%



## Adjusted EBITDA and Adjusted EBITDA Margin

	Three Months Ended March 31,	
	2021	2020
Net loss attributable to common stockholders	\$ (3,339)	\$ (16,933)
Adjustments:		
Depreciation and amortization	20,951	17,394
Stock-based compensation <sup>(1)</sup>	6,624	9,382
Interest expense	2,256	3,516
Income tax expense	996	748
Loss on extinguishment of debt	3,435	259
Restructuring and severance <sup>(2)</sup>	—	3,292
Asset impairment <sup>(3)</sup>	—	538
Revaluation of warrants	(556)	3
Other <sup>(4)</sup>	315	243
Adjusted EBITDA	\$ 30,682	\$ 18,442
Revenue	\$ 93,661	\$ 72,792
Adjusted EBITDA margin	33%	25%

- (1) Consists of stock-based compensation for the three months ended March 31, 2020 and includes compensation of \$7.6 million related to secondary sales of common stock by certain current and former employees. There were no such expenses recorded for the three months ended March 31, 2021.
- (2) Consists primarily of expenses related to changes in our senior leadership, sales and infrastructure teams.
- (3) Consists of internal-use software impairment charges related to software that is no longer being used.
- (4) Consists primarily of third-party consulting costs to enhance our finance function.

### DIGITALOCEAN HOLDINGS, INC. SUPPLEMENTAL FINANCIAL INFORMATION (in thousands) (unaudited)

#### Stock-Based Compensation

	Three Months Ended March 31,	
	2021	2020
Cost of revenue	\$ 196	\$ 24
Research and development	2,636	2,221
Sales and marketing	1,137	226
General and administrative	2,655	6,911
Total	\$ 6,624	\$ 9,382

## Contacts

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Source: DigitalOcean Holdings, Inc.

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