

Earnings Presentation

Q1 2023



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This presentation contains forward-looking statements that involve substantial risks and uncertainties. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “estimate,” “believe,” “predict,” “potential” or “continue” or the negative terms or other similar expressions intended to identify statements about the future. These statements speak only as of the date of this presentation and involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations.

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This presentation includes statistical and other industry and market data that we obtained from industry publications and research, surveys and studies conducted by third parties as well as our own estimates of potential market opportunities. All of the market data used involves a number of assumptions and limitations, and you are cautioned not to give undue weight to such data, industry publications and third-party research, surveys and studies generally indicate that their information has been obtained from sources believed to be reliable, although they do not guarantee the accuracy or completeness of such information. Our estimates of the potential market opportunities for our product candidates include several key assumptions based on our industry knowledge, industry publications, third-party research and other surveys, which may be based on a small sample size and may fail to accurately reflect market opportunities. While we believe that our internal assumptions are reasonable, no independent source has verified such assumptions.

In addition to U.S. GAAP financials, this presentation includes certain non-GAAP financial measures. These non-GAAP measures are in addition to, not a substitute for or superior to, measures of financial performance prepared in accordance with U.S. GAAP. The non-GAAP financial measures used by DigitalOcean Holdings, Inc. may differ from the non-GAAP financial measures used by other companies. A reconciliation of these measures to the most directly comparable U.S. GAAP measure is included in our filings with the SEC.



DigitalOcean simplifies cloud computing so builders can spend more time creating software that changes the world.



Key Performance Indicators

	Q1'22	Q1'23	Y-o-Y Growth
Strong Revenue Growth	\$127.3M	\$165.1M	+30%
Scaling ARR	\$523.7M	\$669.1M	+28%
Adjusted EBITDA Margin	29%	34%	+500 bps
ARPU¹	\$76.45	\$88.35	+16%
Adjusted Free Cash Flow Margin	4%	16%	+1200 bps
Repurchases of Common Stock	\$150.0M	\$265.9M	+77%

¹ The ARPU calculation excludes testers' revenue (approximately \$1M/month) from the numerator and excludes the number of testers (approximately 60k) from the denominator. See slide 11 for our definition of testers.

Large and Rapidly Growing Market Opportunity

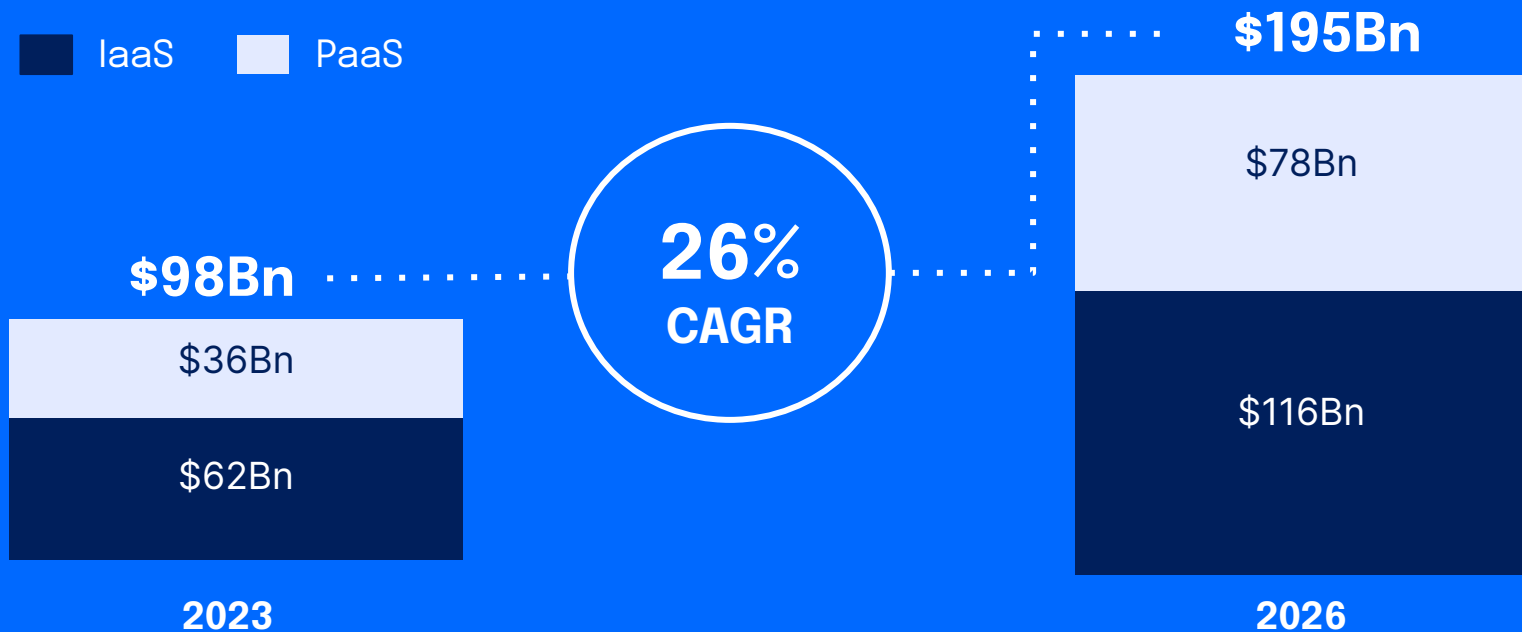
Individuals and Companies
with <500 Employees



IaaS



PaaS



Source: IDC: Worldwide Software and Public Cloud Services Spending Guide (Jan. 2023)

What is the Problem DigitalOcean Solves for SMBs?



Complex systems: Enterprise-focused vendors have complicated implementation processes which limit onboarding for startups and SMBs.



Onerous pricing: Existing providers have intricate and unpredictable pricing models that lack transparency.



Lack of support: Traditional public cloud vendors target large enterprise customers and smaller buyers often do not get the necessary level of support they require.



Uncurated set of offerings: Hyperscalers have built their platforms to serve global enterprises with large dev teams. Ancillary products and services create challenges.

DigitalOcean's Offerings are Highly Differentiated



Simplicity

Infrastructure and Platform Technologies that can be spun up quickly, intuitively, and independently



Support

Live, personal support to all customers regardless of their spend or scale



Community

Free knowledge base with tens of thousands of pieces of content, including Q&A and tutorials to help developers and entrepreneurs



Open

Enabling faster, lower cost innovation without locking users into a proprietary stack

DigitalOcean Offers a Cloud Platform Purpose Built for Developers and SMBs



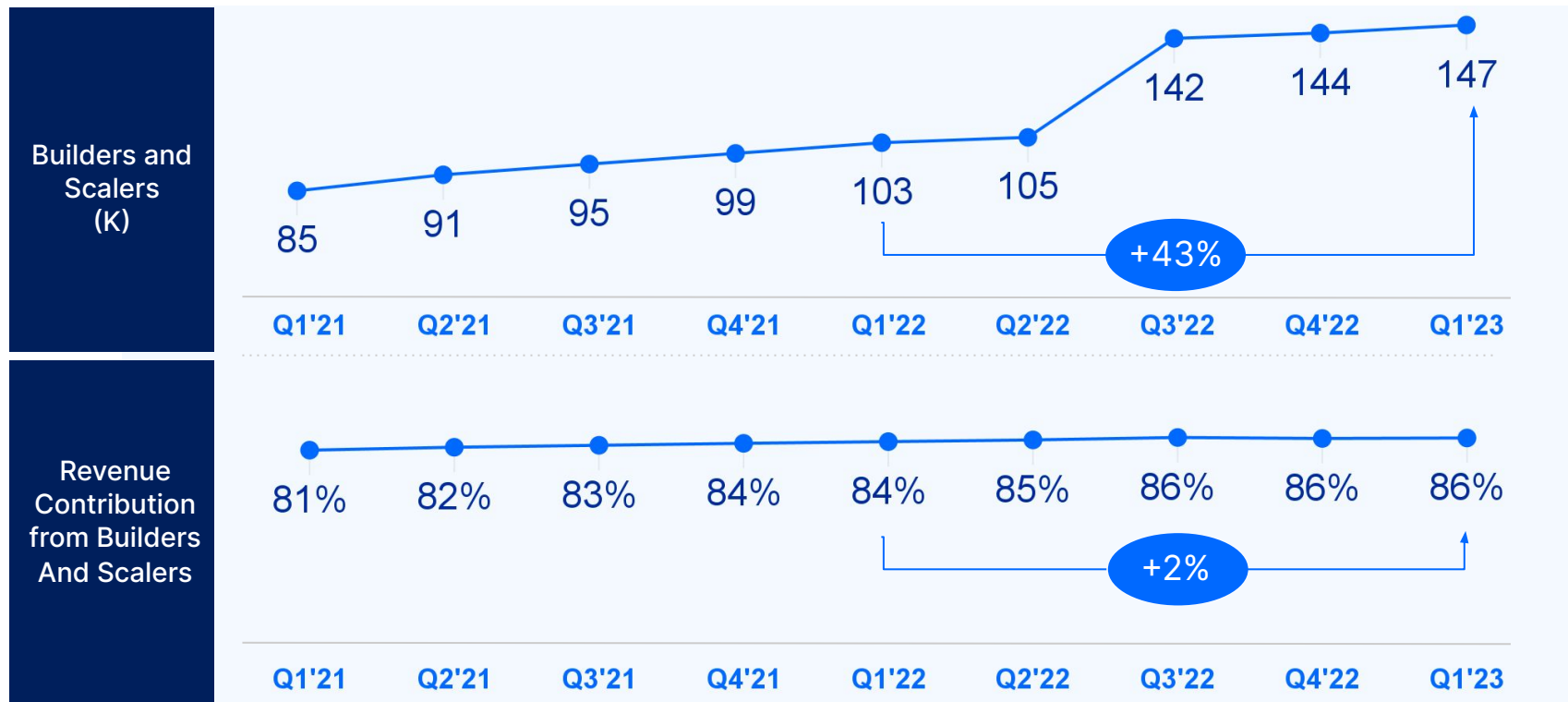
Global Infrastructure Supports Customers in 190 Countries



Notes: % based on Q1'23 revenue.



147K Customers Paying More Than \$50 per Month





Customer Concentration, Revenue Contribution and Growth



(figures as of Mar-23)	Customer Growth ² % y-o-y	ARPU ³	ARR Growth ⁴ %	Customer Growth ^{2,5} q-o-q	Customer Growth ² % q-o-q
Total ¹	12%	\$88	29%	1,860	0%
Scalers	39%	\$1,962	24%	366	2%
Builders	43%	\$135	41%	1,959	2%
Learners	5%	\$15	19%	-465	0%

1. **Scalers** spend more than \$500 per month, **Builders** spend between \$50 and \$500 per month, **Learners** spend less than \$50 per month and have been customers for at least 3 months. **Testers** spend less than \$50 per month and have been customers for less than 3 months and contribute revenue of approximately \$1M per month.

2. **614K total customers** excludes testers on an aggregate basis.

3. ARPU excludes testers' revenue and tester customer count from the calculation.

4. ARR growth is calculated by monthly revenue of March 2023 over the same period in March 2022.

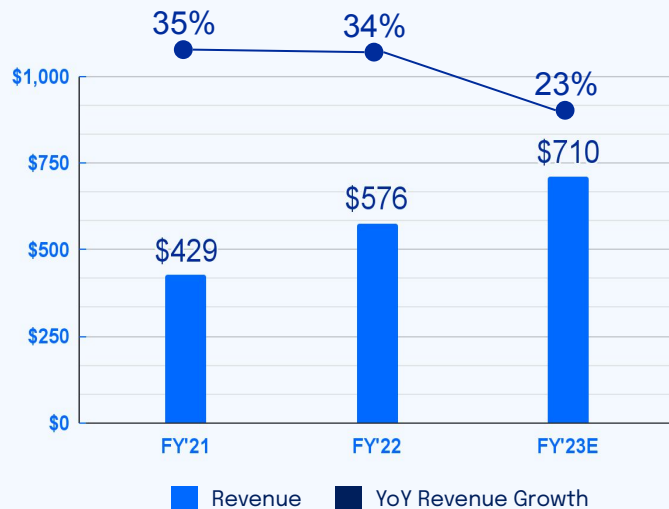
5. Quarter over quarter customer growth includes net graduation less customer churn.

Financials

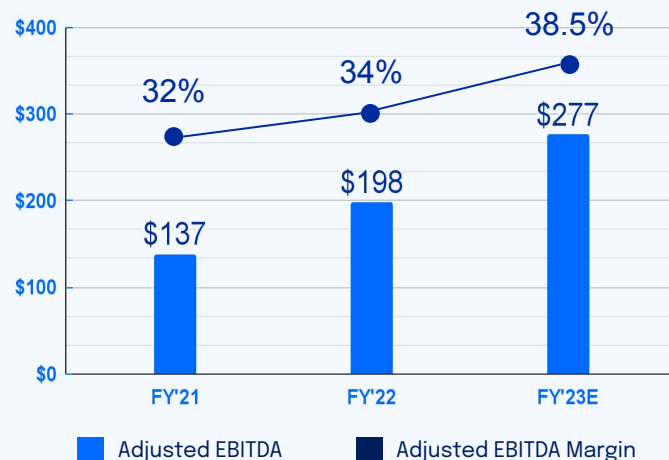


Balanced Profile of Growth and Profitability

Revenue (M)



Adjusted EBITDA (M)

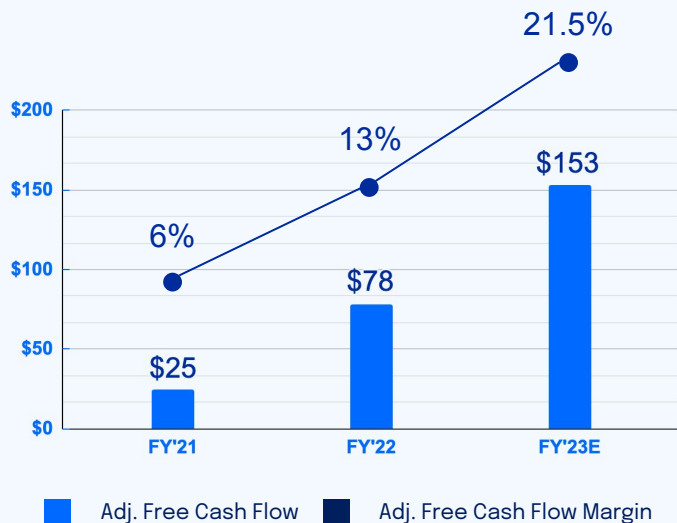


Notes: 2023E based on the midpoint of financial outlook as of May 9, 2023



Return on Invested Capital Drivers

Adjusted Free Cash Flow (M)



Diluted Weighted Average Shares Outstanding



Notes: 2023E based on the midpoint of financial outlook as of May 9, 2023



Healthy Customer Economics

Net Dollar Retention Rate



ARPU





Financial Outlook

Metric	Q2 2023	FY 2023 (as of 2/16)	FY 2023 (as of 5/9)
Revenue	\$169.5-\$170.5M	\$700-\$720M	\$700-\$720M
Adjusted EBITDA Margin	37-38%	38-39%	38-39%
Non-GAAP Diluted Net Income Per Share	\$0.40-\$0.41	\$1.65-\$1.69	\$1.70-\$1.73
Adjusted Free Cash Flow Margin	NA	21-22%	21-22%
Fully Diluted Weighted Average Shares Outstanding	~103M	114-116M	103-105M



Appendix



Financial Highlights and KPIs

	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22	Q1'23
Revenue (M)	\$93.7	\$103.8	\$111.4	\$119.7	\$127.3	\$133.9	\$152.1	\$163.0	\$165.1
Revenue Growth	29%	35%	37%	37%	36%	29%	37%	36%	30%
ARR (M)	\$388	\$426	\$455	\$490	\$524	\$544	\$641	\$659	\$669
ARR Increase (M)	\$31	\$38	\$28	\$35	\$34	\$20	\$97	\$18	\$10
Adj. EBITDA (M)¹	\$31.1	\$31.2	\$36.6	\$37.8	\$37.2	\$45.5	\$61.5	\$54.2	\$56.2
Net Dollar Retention Rate (NDR)	107%	113%	116%	116%	117%	112%	118%	112%	107%
Average Revenue Per Customer (ARPU)²	\$59.32	\$63.93	\$67.65	\$72.01	\$76.45	\$79.74	\$86.54	\$87.52	\$88.35
Builders and Scalars (Customers that spend more than \$50 per month)	85.2k	90.7k	94.6k	99.4k	102.5k	105.4K	142.1K	144.2k	146.5k
Builders and Scalars % of total company revenue	81%	82%	83%	84%	84%	85%	86%	86%	86%
Capex as % of Revenue	25%	25%	24%	27%	20%	24%	21%	19%	15%

(1) Includes the impact of the adoption of ASC 842 for all periods within fiscal year 2022.

(2) Restated to conform to our current definition of ARPU, which excludes testers.



Adjusted EBITDA and Adjusted EBITDA Margin

	Three Months Ended March 31,	
	2023	2022
<i>(In thousands)</i>		
GAAP Net loss attributable to common stockholders	\$ (34,937)	\$ (18,568)
Adjustments:		
Depreciation and amortization	28,913	23,933
Stock-based compensation	27,594	25,981
Interest expense	2,189	2,059
Acquisition related compensation	7,601	—
Acquisition and integration related costs	1,301	(46)
Income tax expense	7,608	3,338
Loss on extinguishment of debt	—	407
Restructuring and other charges	20,869	—
Restructuring related salary continuation charges	1,907	—
Impairment of long-lived assets	553	908
Other expense ⁽¹⁾	(7,394)	(820)
Adjusted EBITDA	<u>\$ 56,204</u>	<u>\$ 37,192</u>
As a percentage of revenue:		
Adjusted EBITDA margin	34 %	29 %

(1) Other income (expense), net primarily consists of interest and accretion income from our marketable securities.



Non-GAAP Net Income and Non-GAAP Diluted Net Income Per Share

<i>(In thousands)</i>	Three Months Ended March 31,	
	2023	2022
GAAP Net loss attributable to common stockholders	\$ (34,937)	\$ (18,568)
Stock-based compensation	27,594	25,981
Acquisition related compensation	7,601	—
Amortization of acquired intangibles	3,790	462
Acquisition and integration related costs	1,301	(46)
Loss on extinguishment of debt	—	407
Impairment of long-lived assets	553	908
Restructuring and other charges	20,869	—
Restructuring related salary continuation charges	1,907	—
Income tax effects of non-GAAP adjustments ⁽¹⁾	36	309
Non-GAAP net income	\$ 28,714	\$ 9,453
Deferred financing fees ⁽²⁾	1,879	1,868
Non-GAAP net income used in computing Non-GAAP diluted net income per share ⁽²⁾	\$ 30,593	\$ 11,321
Weighted-average shares used to compute Non-GAAP diluted net income per share	111,224	126,555
Non-GAAP diluted net income per share	\$ 0.28	\$ 0.09

(1) The income tax effects of non-GAAP adjustments are calculated based on the applicable statutory tax rate for the relevant jurisdiction, except for those items which are non-taxable or subject to valuation allowances for which the tax expense (benefit) was calculated at 0%. The tax benefit for amortization is calculated in a similar manner as the tax effects of the non-GAAP adjustments.

(2) Non-GAAP net income has been adjusted for the dilutive impact of deferred financing fees related to the Convertible Notes.



Adjusted Free Cash Flow and Adjusted Free Cash Flow Margin

	Three Months Ended March 31,	
<i>(In thousands)</i>	2023	2022
GAAP Net cash provided by operating activities	\$ 36,215	\$ 30,401
Adjustments:		
Capital expenditures - property and equipment	(23,314)	(23,045)
Capital expenditures - internal-use software development	(1,794)	(2,276)
Restructuring related costs	11,261	—
Restructuring related salary continuation charges	1,907	—
Acquisition and integration related costs	1,468	97
Adjusted free cash flow	<u>\$ 25,743</u>	<u>\$ 5,177</u>
As a percentage of revenue:		
GAAP Net cash provided by operating activities	22 %	24 %
Adjusted free cash flow margin	16 %	4 %



Non-GAAP Operating Expenses

<i>(In thousands)</i>	Three Months Ended March 31,	
	2023	2022
GAAP Cost of revenue	\$ 71,879	\$ 47,202
Less: Amortization of acquired intangible assets	1,700	76
Less: Stock-based compensation	392	432
Less: Impairment of long-lived assets	542	—
Non-GAAP Cost of revenue	<u>\$ 69,245</u>	<u>\$ 46,694</u>
GAAP Research and development	\$ 38,272	\$ 37,241
Less: Amortization of acquired intangible assets	275	275
Less: Stock-based compensation	9,590	9,720
Less: Impairment of long-lived assets	11	120
Less: Acquisition related compensation	250	—
Less: Acquisition and integration related costs	59	—
Less: Restructuring related salary continuation charges	1,546	—
Non-GAAP Research and development	<u>\$ 26,541</u>	<u>\$ 27,126</u>



Non-GAAP Operating Expenses (cont.)

	Three Months Ended March 31,	
<i>(In thousands)</i>	2023	2022
GAAP Sales and marketing	\$ 17,709	\$ 19,044
Adjustments:		
Less: Amortization of acquired intangible assets	1,815	—
Less: Stock-based compensation	3,332	3,346
Less: Restructuring related salary continuation charges	261	—
Non-GAAP Sales and marketing	\$ 12,301	\$ 15,698
GAAP General and administrative	\$ 48,939	\$ 37,424
Less: Amortization of acquired intangible assets	—	111
Less: Stock-based compensation	14,279	12,483
Less: Impairment of long-lived assets	—	788
Less: Acquisition related compensation	7,351	—
Less: Acquisition and integration related costs	1,242	(46)
Less: Restructuring related salary continuation charges	100	—
Non-GAAP General and administrative	\$ 25,967	\$ 24,088