

# Earnings Presentation

## Q2 2022

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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.

We cannot assure you that the forward-looking statements in this presentation will prove to be accurate.

Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise. You should, however, review the factors and risks and other information we describe in the reports we file from time to time with the SEC.

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.**



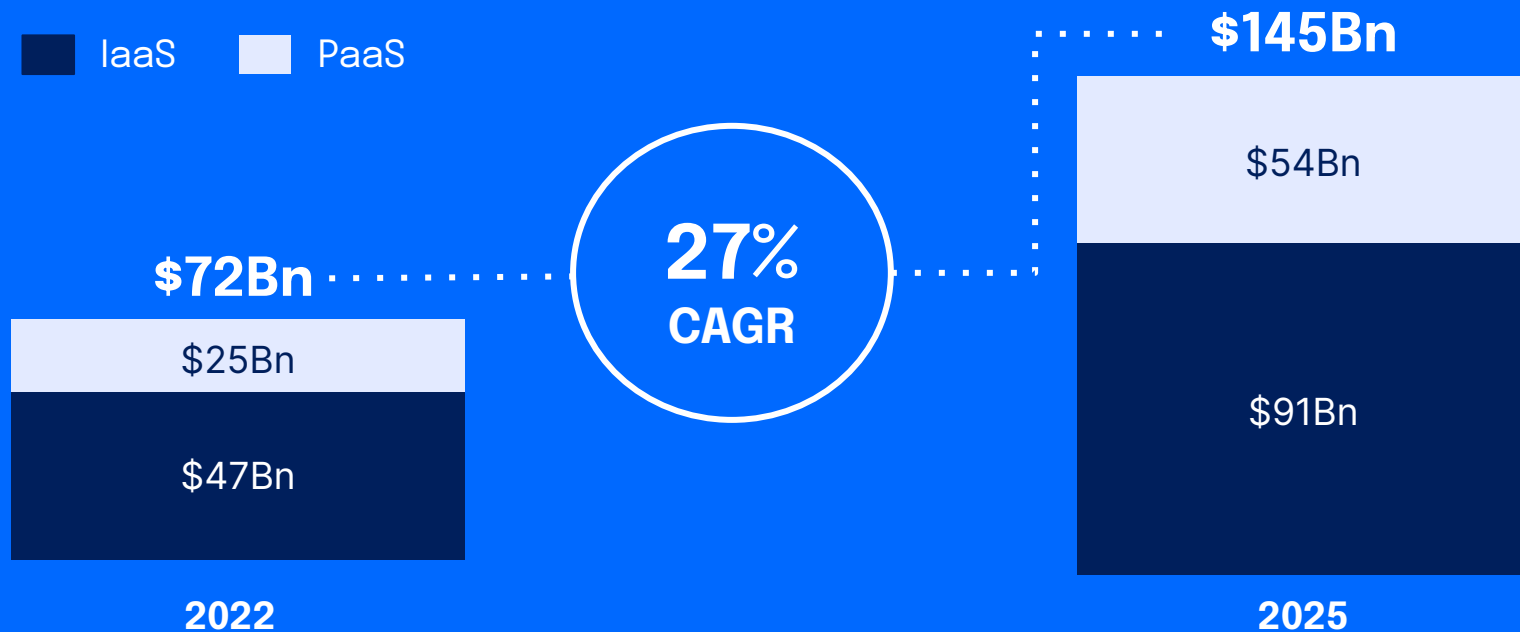
## Key Performance Indicators

	Q2'22	Q2'21	Y-o-Y Growth
<b>Strong Revenue Growth</b>	\$133.9M	\$103.8M	<b>+29%</b>
<b>Scaling ARR</b>	\$544M	\$426M	<b>+28%</b>
<b>GAAP Gross Margin</b>	65%	58%	<b>+700 bps</b>
<b>Non-GAAP Operating Margin</b>	17%	9%	<b>+800 bps</b>
<b>Customers Spending More Than \$50 per Month</b>	105.4K	90.7K	<b>+16%</b>
<b>Customers Spending More than \$50 per Month Percentage of Total Company Revenue</b>	85%	82%	<b>+300 bps</b>
<b>ARPU Increase</b>	\$71.76	\$58.07	<b>+24%</b>

# Large and Rapidly Growing Market Opportunity

Individuals and Companies  
with <500 Employees

■ IaaS    ■ PaaS



Source: IDC: Public Cloud Service Spending Guide (January 2022)

# Sources of Market Growth

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**43M**

Developers  
by 2025



**100M**

SMBs globally



**14M**

Yearly net  
new SMBs

# What is the Problem DigitalOcean Solves for SMBs?

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

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

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**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.

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**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

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## 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 Source

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

# DigitalOcean Offers a Cloud Platform Purpose Built for Developers and SMBs

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## VPS Hosting

2012-2015

**Droplets: Simple and scalable virtual machines**

## Cloud Infrastructure

2015-2018

**Key components underpinning cloud such as Volumes, Load Balancers, Spaces, and Firewalls**

## Developer & SMB Cloud

2018-2022+

**Essential elements to help developers and growing SMBs scale such as Managed Kubernetes, Managed Databases, Marketplace, App Platform, and Functions**

# Global Infrastructure Supports Customers in 185 Countries



Notes: % based on Q2'22 revenue. \*Sydney data center to open in Q4'22

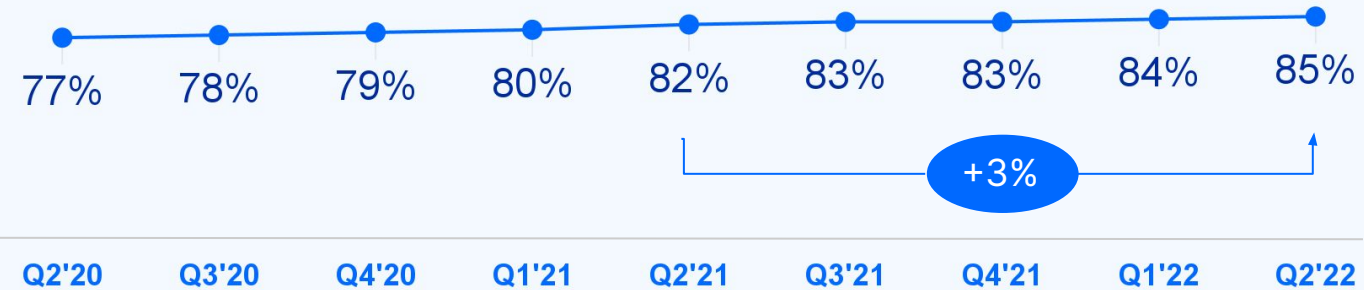


# 105K Customers Paying More Than \$50 per Month

Customers paying more than \$50/month (K)



Revenue Contribution from \$50/month Customers



**Scenario**

Advertising

**Country**

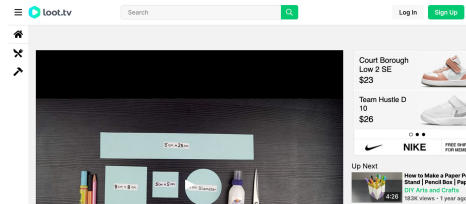
USA

**PRODUCTS & SERVICES**

- ✓ Spaces Object Storage
- ✓ Managed Kubernetes
- ✓ Load Balancers
- ✓ Mongo DB



## Loot.tv finds simplicity and scalability with DigitalOcean

**COST SAVINGS**

The team discovered that Spaces, DigitalOcean's S3 compatible object storage solution, provides low bandwidth costs that would allow Loot.tv to effectively serve its customers while paying a fraction of the cost for bandwidth that they were paying on hyperscalers.

**SCALABILITY**

Loot.tv was able to spend a weekend creating Kubernetes cluster in DigitalOcean's Managed Kubernetes solution. Since Kubernetes automatically scales up and down to meet demand and is self-healing, they don't have to worry about self-managing virtual servers or finding fixes if something goes wrong.

**GROWTH**

The solid foundation Loot.tv has built with DigitalOcean will allow them to continue to expand. In the last two years, they've built a user base of 23,000 active daily users and continue to experience rapid growth. Now, they're one of the largest rewarded ad networks in the world. And the team doesn't plan to slow down.



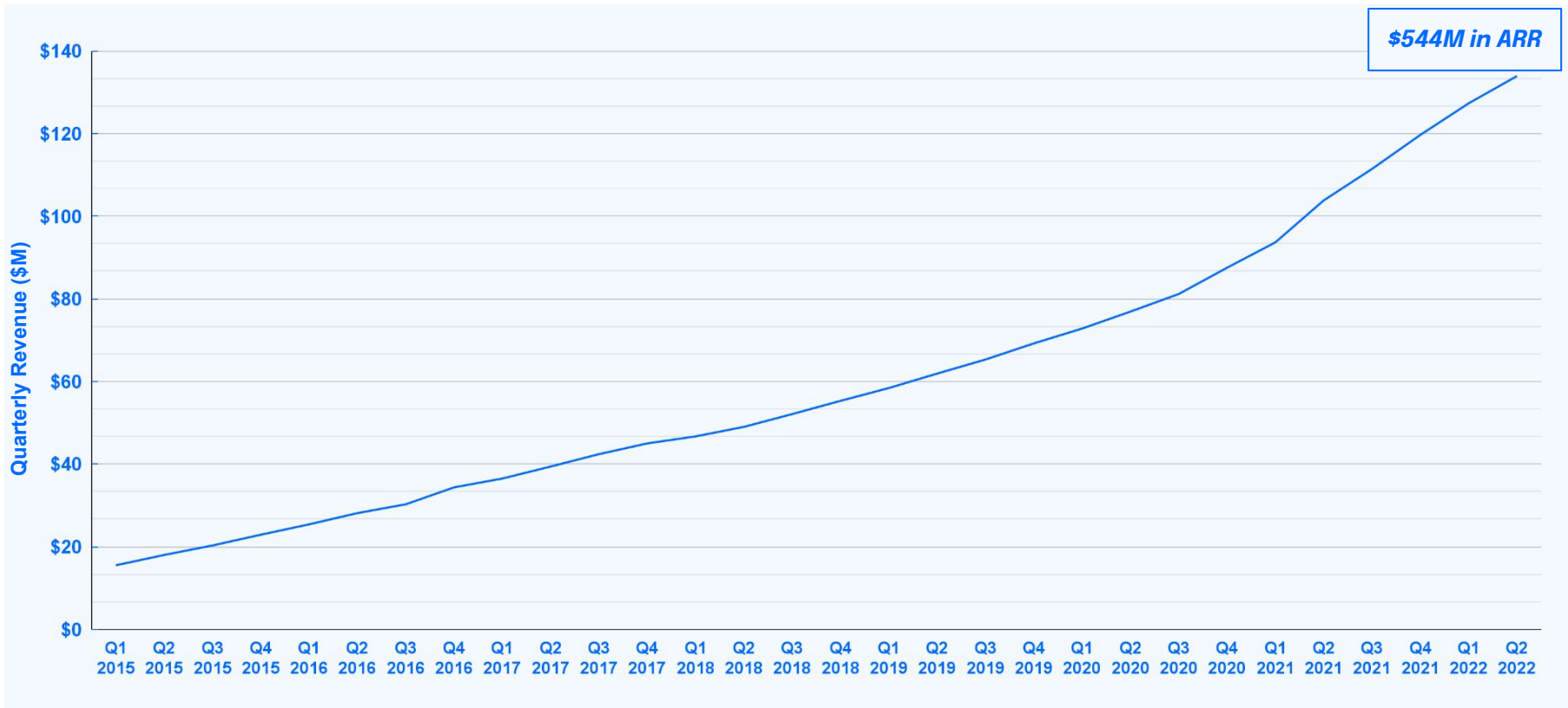
*Cloud providers love gouging on bandwidth for seemingly no reason. The only reason that Loot.tv can exist is because of the very cheap overage [bandwidth charges] on DigitalOcean Spaces.*

**Joshua Verdehem, Co-Founder, Loot.tv**

# Financials



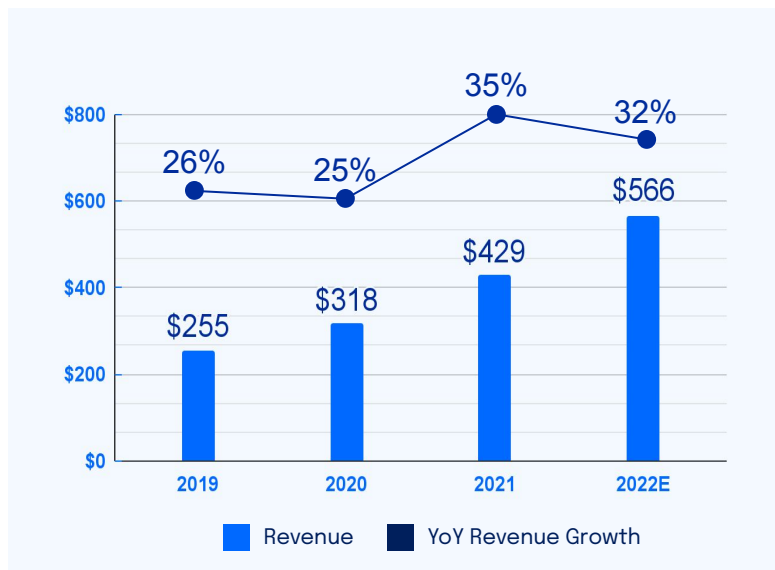
# Consistent Performance with Recent Acceleration (ARR)



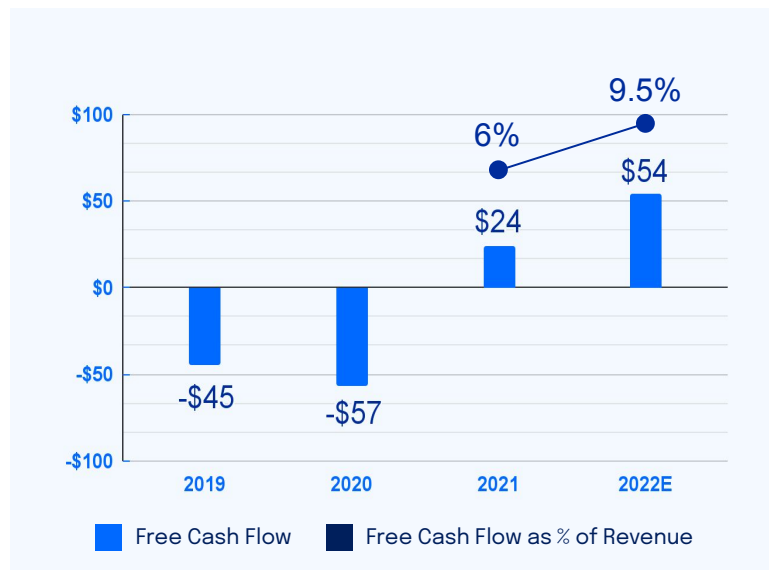


# Scale with Free Cash Flow

### Revenue (M)



### Free Cash Flow (M)



Notes: 2022E based on the midpoint of financial outlook as of August 8, 2022

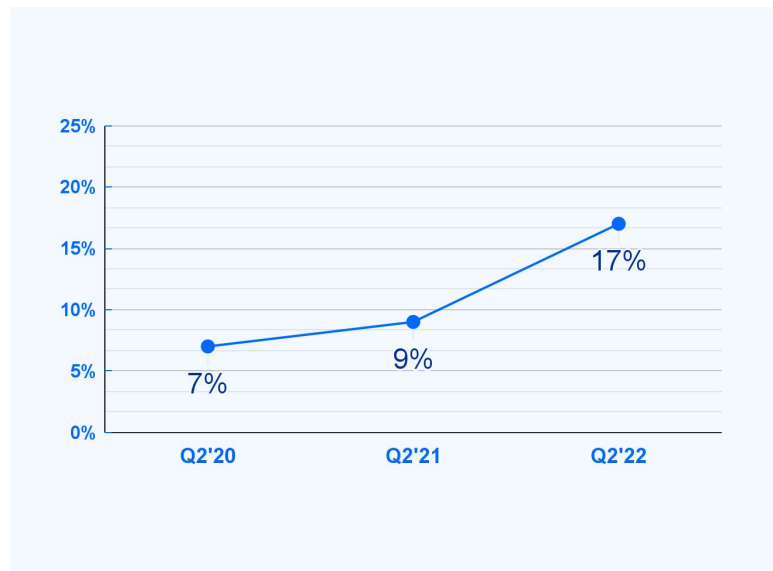


# Improving Profitability

## GAAP Gross Margin



## Non-GAAP Operating Margin





# Healthy Customer Economics

## Net Dollar Retention Rate



## Monthly ARPU





## Financial Outlook

Metric	Q3 2022	FY 2022
Revenue	\$145.5-\$147M	\$564-\$568M
Non-GAAP Operating Margin	17%-18%	15%-16%
Non-GAAP Diluted Net Income Per Share	\$0.22-\$0.23	\$0.74-\$0.75
Free Cash Flow as a % of Revenue	NA	9%-10%
Fully Diluted Weighted Average Shares Outstanding	113-115M	117-119M



# Appendix

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# Financial Highlights and KPIs

	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22
<b>Revenue (M)</b>	\$76.9	\$81.2	\$87.5	\$93.7	\$103.8	\$111.4	\$119.7	\$127.3	\$133.9
<b>Revenue Growth</b>	24%	24%	26%	29%	35%	37%	37%	36%	29%
<b>ARR (M)</b>	\$313	\$335	\$357	\$388	\$426	\$455	\$490	\$524	\$544
<b>ARR Increase (M)</b>	\$14	\$22	\$22	\$31	\$38	\$28	\$35	\$34	\$20
<b>Adj. EBITDA (M)<sup>1</sup></b>	\$24.0	\$26.7	\$27.0	\$31.1	\$31.2	\$36.6	\$37.8	\$37.6	\$46.0
<b>Non-GAAP Operating Income (M)</b>	\$5.4	\$6.9	\$6.3	\$10.0	\$9.6	\$17.5	\$14.7	\$14.2	\$22.3
<b>Net Dollar Retention Rate (NDR)</b>	102%	104%	105%	107%	113%	116%	116%	117%	112%
<b>Average Revenue Per Customer (ARPU)</b>	\$46.44	\$48.58	\$51.25	\$53.68	\$58.07	\$61.97	\$65.87	\$68.90	\$71.76
<b>Customers Spending More than \$50/month</b>	72.8k	76.5k	80.2k	85.2k	90.7k	94.6k	99.3k	102.5k	105.4K
<b>Customers Spending More than \$50/month Percentage of Total Company Revenue</b>	77%	78%	79%	80%	82%	83%	83%	84%	85%
<b>Capex as % of Revenue</b>	40%	32%	35%	25%	25%	24%	27%	20%	24%

(1) See slide 25 regarding a modification to our definition of Adjusted EBITDA



## Adjusted Gross Profit and Adjusted Gross Margin

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Gross profit	\$ 86,636	\$ 60,665	\$ 167,206	\$ 114,782
Adjustments:				
Depreciation and amortization	22,574	20,042	44,836	39,266
Stock-based compensation	481	405	913	601
Adjusted gross profit	\$ 109,691	\$ 81,112	\$ 212,955	\$ 154,649
Gross margin	65 %	58 %	64 %	58 %
Adjusted gross margin	82 %	78 %	82 %	78 %



## Non-GAAP Income from Operations and Non-GAAP Operating Margin

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
<i>(In thousands)</i>	2022	2021	2022	2021
(Loss) income from operations	\$ (7,377)	\$ (2,630)	\$ (20,516)	\$ 624
Adjustments:				
Stock-based compensation	28,183	12,201	54,164	18,825
Amortization of acquired intangibles	564	76	1,026	152
Acquisition related costs	214	—	168	—
Loss on sublease	683	—	1,471	—
Asset impairment	—	—	120	—
Non-GAAP income from operations	\$ 22,267	\$ 9,647	\$ 36,433	\$ 19,601
Operating margin	(6)%	(3)%	(8)%	—%
Non-GAAP operating margin	17%	9%	14%	10%



# Historical Non-GAAP Income from Operations and Non-GAAP Operating Margin

<i>(In thousands)</i>	Three Months Ended							
	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21
(Loss) income from operations	\$(12,487)	\$ 1,778	\$(6,720)	\$ 1,638	\$ 3,254	\$(2,630)	\$(1,671)	\$(10,139)
Adjustments:								
Stock-based compensation	9,382	2,757	12,726	4,591	6,624	12,201	18,555	24,197
Amortization of acquired intangibles	76	76	76	76	76	76	168	351
Acquisition related costs	—	—	—	—	—	—	280	189
Loss on sublease	—	—	—	—	—	—	—	—
Asset impairment	538	148	536	—	—	—	212	73
Restructuring and severance	3,292	630	254	37	—	—	—	—
Non-GAAP Income from operations	<u>\$ 801</u>	<u>\$ 5,389</u>	<u>\$ 6,872</u>	<u>\$ 6,342</u>	<u>\$ 9,954</u>	<u>\$ 9,647</u>	<u>\$ 17,544</u>	<u>\$ 14,671</u>
Operating margin	(17)%	2 %	(8)%	2 %	3 %	(3)%	(1)%	(8)%
Non-GAAP Operating margin	1 %	7 %	8 %	7 %	11 %	9 %	16 %	12 %



## Adjusted EBITDA and Adjusted EBITDA Margin

	<b>Three Months Ended June 30,</b>	
	<b>2022</b>	
<i>(In thousands)</i>		
Net loss attributable to common stockholders	\$	(6,191)
Adjustments:		
Depreciation and amortization	\$	24,341
Stock compensation expense		28,183
Interest expense		2,095
(Gain) loss on Sublease		683
Income tax expense		(1,169)
Acquisition related costs		214
Other <sup>(1)</sup>		(2,111)
Adjusted EBITDA	\$	46,045
Adjusted EBITDA margin		34 %

(1) Consists primarily of interest income from our marketable securities



## Historical Adjusted EBITDA and Adjusted EBITDA Margin

<i>(In thousands)</i>	Three Months Ended								
	Q1'20	Q2'20	Q3'20	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22
Net loss attributable to common stockholders	\$(16,933)	\$(2,570)	\$(10,214)	\$(13,851)	\$(3,339)	\$(2,187)	\$(1,852)	\$(12,125)	\$(18,123)
Adjustments:									
Depreciation and amortization	17,394	18,328	19,481	20,371	20,951	21,589	22,382	23,450	23,933
Stock-based compensation	9,382	2,757	12,726	4,591	6,624	12,201	18,555	24,197	25,981
Interest expense	3,516	3,779	3,190	3,125	2,256	233	186	1,069	2,059
(Gain) loss on Sublease	—	—	—	—	—	—	—	—	788
Income tax expense	748	251	(134)	47	996	(473)	(145)	924	3,338
Loss on extinguishment of debt	259	—	—	—	3,435	—	—	—	407
Restructuring and severance	3,292	630	254	37	—	—	—	—	—
Asset impairment	538	148	536	—	—	—	212	73	120
Revaluation of warrants	3	284	165	12,373	(556)	—	—	—	—
Acquisition related costs	—	—	—	—	—	—	280	189	(46)
Reclaim of VAT reserve	—	—	—	—	—	—	(3,188)	—	—
Other <sup>(1)</sup>	163	369	690	342	777	(203)	140	(7)	(820)
Adjusted EBITDA <sup>(1)</sup>	<u>\$18,362</u>	<u>\$23,976</u>	<u>\$26,694</u>	<u>\$27,035</u>	<u>\$31,144</u>	<u>\$31,160</u>	<u>\$36,570</u>	<u>\$37,770</u>	<u>\$37,637</u>
Adjusted EBITDA margin <sup>(1)</sup>	25 %	31 %	33 %	31 %	33 %	30 %	33 %	32 %	30 %

(1) Restated to conform to our existing credit agreement which excludes the impact of foreign exchange, interest income and other components reported in Other (income) expense, net in the Condensed Consolidated Statements of Operations.



## Non-GAAP Net Income (loss) and Non-GAAP Diluted Net Income (loss) per Share

<i>(In thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
GAAP Net loss attributable to common stockholders	\$ (6,191)	\$ (2,187)	\$ (24,314)	\$ (5,526)
Stock-based compensation	28,183	12,201	54,164	18,825
Amortization of acquired intangible assets	564	76	1,026	152
Acquisition related costs	214	—	168	—
Loss on sublease	683	—	1,471	—
Loss on extinguishment of debt	—	—	407	3,435
Asset impairment	—	—	120	—
Revaluation of warrants	—	—	—	(556)
Income tax effects of non-GAAP adjustments <sup>(1)</sup>	(27)	(26)	282	109
Non-GAAP net income <sup>(2)</sup>	\$ 23,426	\$ 10,064	\$ 33,324	\$ 16,439
Non-GAAP diluted net income per share <sup>(2)</sup>	\$ 0.20	\$ 0.08	\$ 0.27	\$ 0.15
Weighted-average shares used to compute Non-GAAP diluted net income per share	119,855	118,778	123,231	111,241

(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) Amounts are attributable for both the common and convertible preferred stockholders, treated as one class of stock.



## Free Cash Flow and Free Cash Flow Margin

	Six Months Ended	
	June 30,	
<i>(In thousands)</i>	2022	2021
Net cash provided by operating activities	\$ 75,652	\$ 60,197
Adjustments:		
Capital expenditures - property and equipment	(48,041)	(47,036)
Capital expenditures - internal-use software development	(4,330)	(2,713)
Purchase of intangible assets	(4,915)	—
Free cash flow	\$ 18,366	\$ 10,448
As a percentage of revenue:		
Net cash provided by operating activities	29 %	30 %
Free cash flow margin	7 %	5 %



## Non-GAAP Sales and Marketing Expense

	<b>Three Months Ended</b>	
	<b>June 30, 2022</b>	
<i>(In thousands)</i>		
Sales and marketing	\$	18,219
Adjustments:		
Stock compensation expense		(3,851)
Non-GAAP sales and marketing	\$	14,368
As a percent of revenue		11 %



## Stock-Based Compensation

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
Cost of revenue	\$ 481	\$ 405	\$ 913	\$ 601
Research and development	10,661	5,059	20,381	7,695
Sales and marketing	3,851	1,902	7,197	3,039
General and administrative	13,190	4,835	25,673	7,490
Total	<u>\$ 28,183</u>	<u>\$ 12,201</u>	<u>\$ 54,164</u>	<u>\$ 18,825</u>

# Appendix