

Earnings Presentation

Q4 2022



Safe Harbor

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

	Q4'22	Q4'21	Y-o-Y Growth
Strong Revenue Growth	\$163.0M	\$119.7M	+36%
Scaling ARR	\$658.8M	\$489.8M	+34%
Non-GAAP Operating Margin	16%	12%	+400 bps
Customers Spending More Than \$50 per Month	144.2K	99.4K	+45%
Customers Spending More than \$50 per Month Percentage of Total Company Revenue	86%	84%	+200 bps
ARPU Increase	\$80.27	\$65.87	+24%

Large and Rapidly Growing Market Opportunity

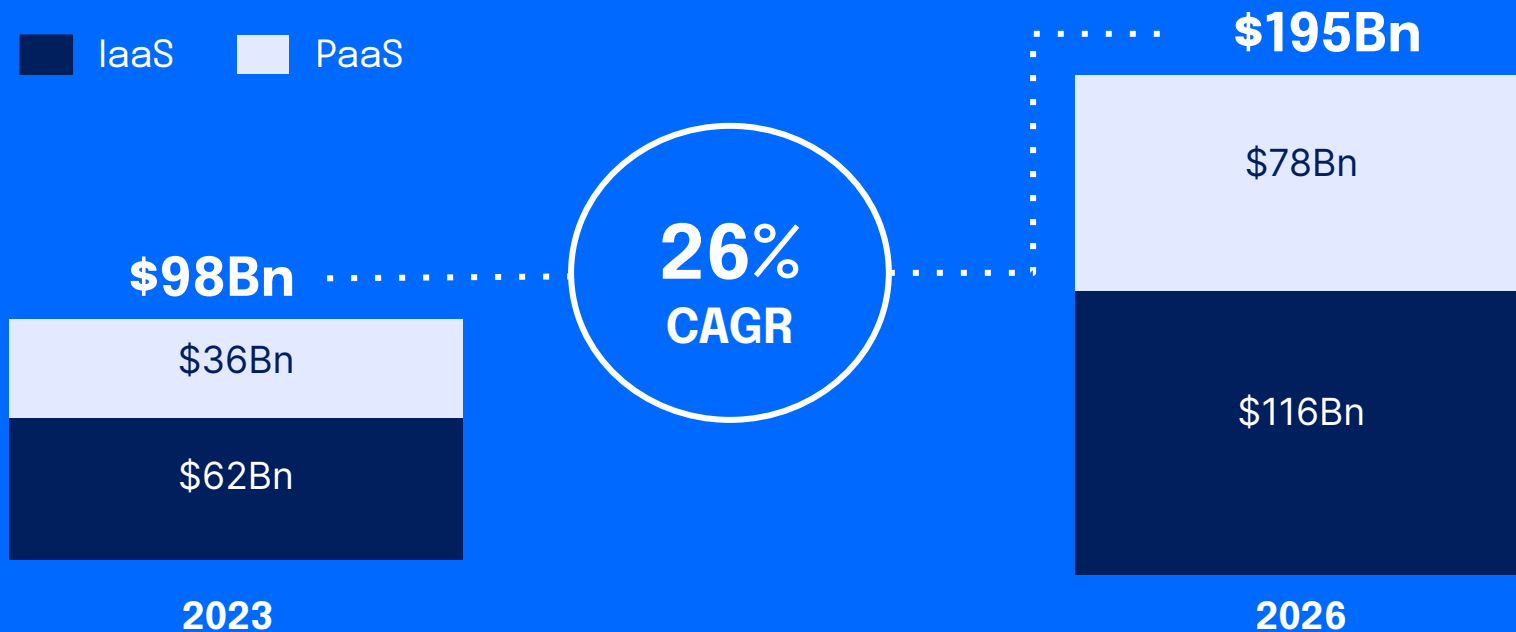
Individuals and Companies
with <500 Employees



IaaS



PaaS



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

Sources of Market Growth



48M

Developers by
2027¹



100M

SMBs globally



14M

Yearly net
new SMBs

¹IDC: Understanding the Significance of the Worldwide Developer Forecast, 2020-2025 (March 2021)

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 Source

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

DigitalOcean Offers a Cloud Platform Purpose Built for Developers and SMBs



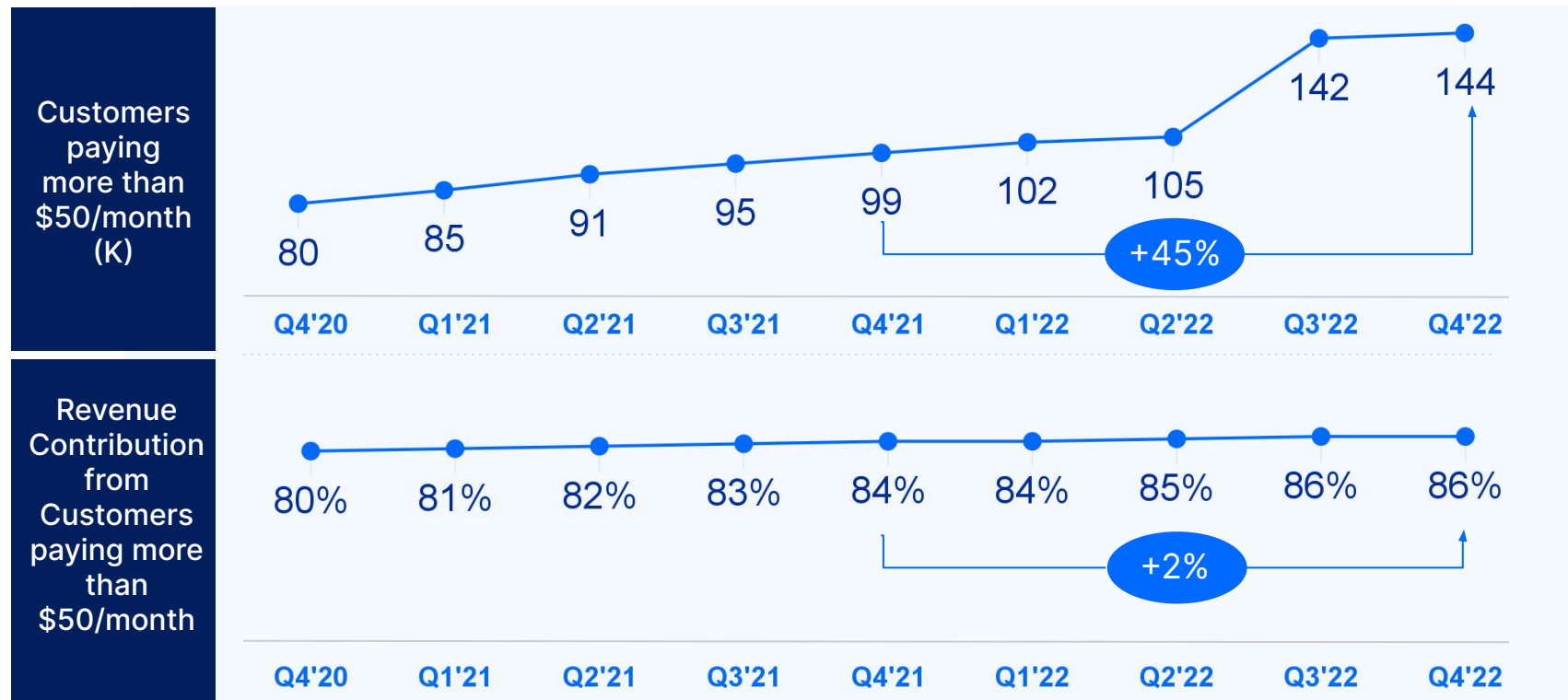
Global Infrastructure Supports Customers in 190 Countries



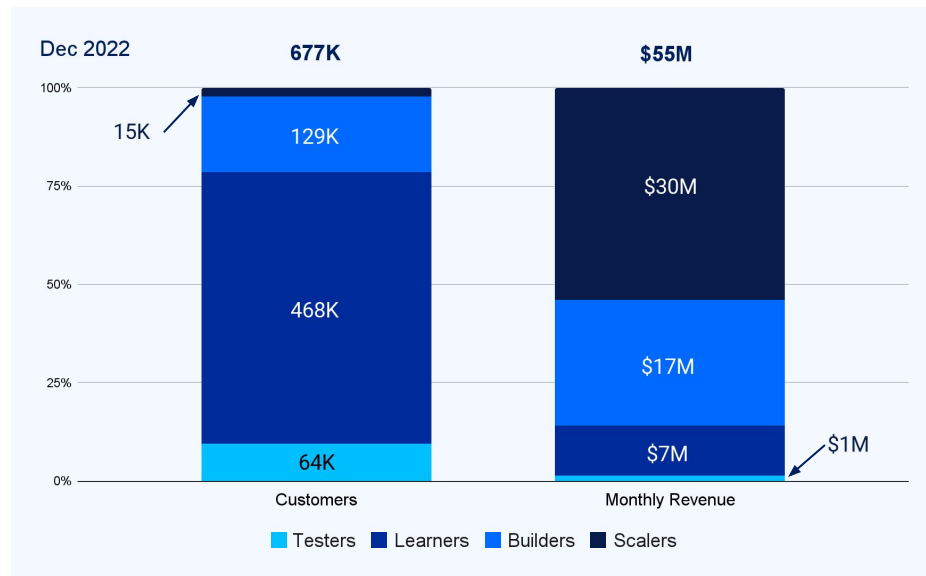
Notes: % based on FY'22 revenue.



144K Customers Paying More Than \$50 per Month



Customer Concentration, Revenue Contribution and Growth



(figures as of Dec-22)	Customer Growth ² % y-o-y	ARR Growth ³ %	ARPU	Average Customer Age ⁴ (months)
Total ¹	11%	34%	\$81	44
Scalars	42%	34%	\$1,974	57
Builders	45%	44%	\$135	47
Learners	5%	20%	\$15	48
Testers	1%	9%	\$12	2

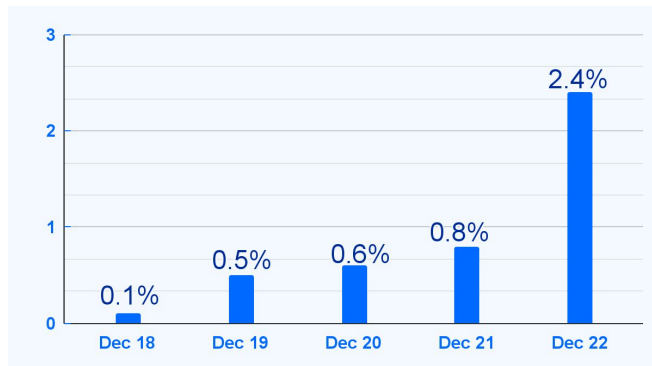
1. **Scalars** spend more than \$500 per month, **Builders** spend between \$50 and \$500 per month, **Learners** spend less than \$50 per month and have been customers for at least 3 months and **Testers** spend less than \$50 per month and have been customers for less than 3 months.
2. 677K total customers includes the contribution of 87K customers from Cloudways.
3. ARR growth is calculated by monthly revenue of December 2022 over the same period in December 2021.
4. Average customer age (months) is for historical DigitalOcean customers.



Steady, Growing Graduation Rates from Learner to Builders to Scalers

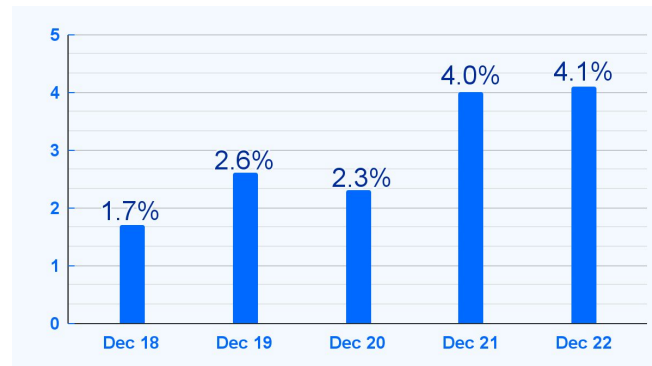


Annual Net Graduation Rate
(% of Learners to Builders)



Net Graduates (000s): 0.3 2.6 2.3 3.6 10.8

Annual Net Graduation Rate
(% of Builders to Scalers)

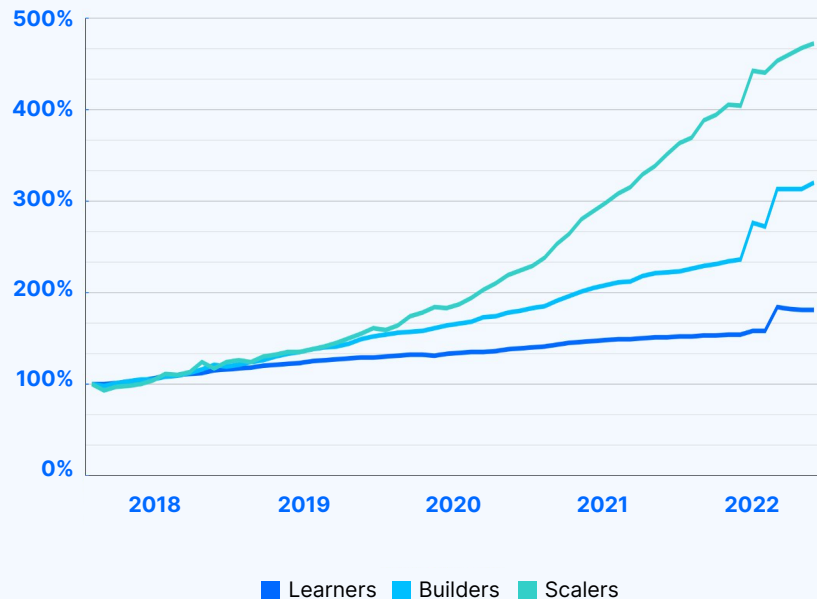


Net Graduates (000s): 0.7 1.3 1.4 2.9 3.7

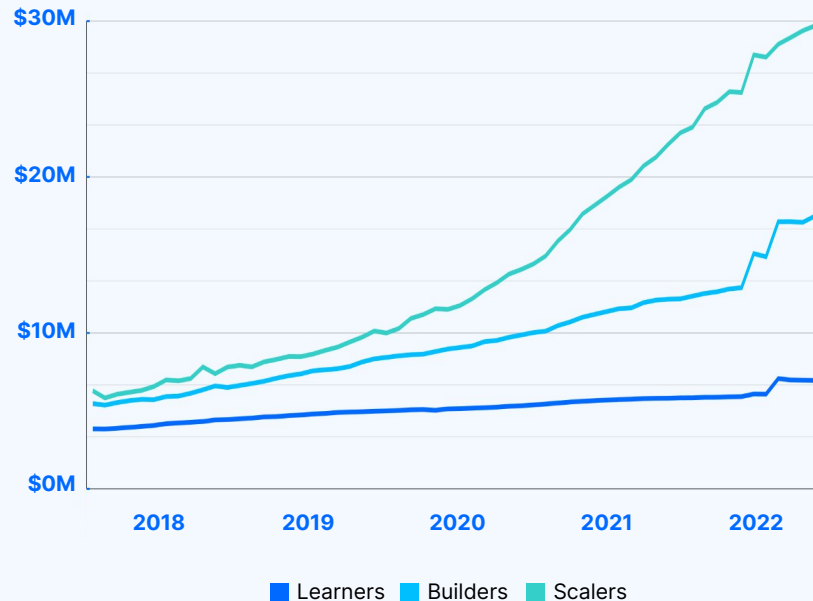


Steady Growth: While Learner pool has grown modestly, the Builder and Scaler pools have materially grown both customer count and spend

Indexed Customer Count



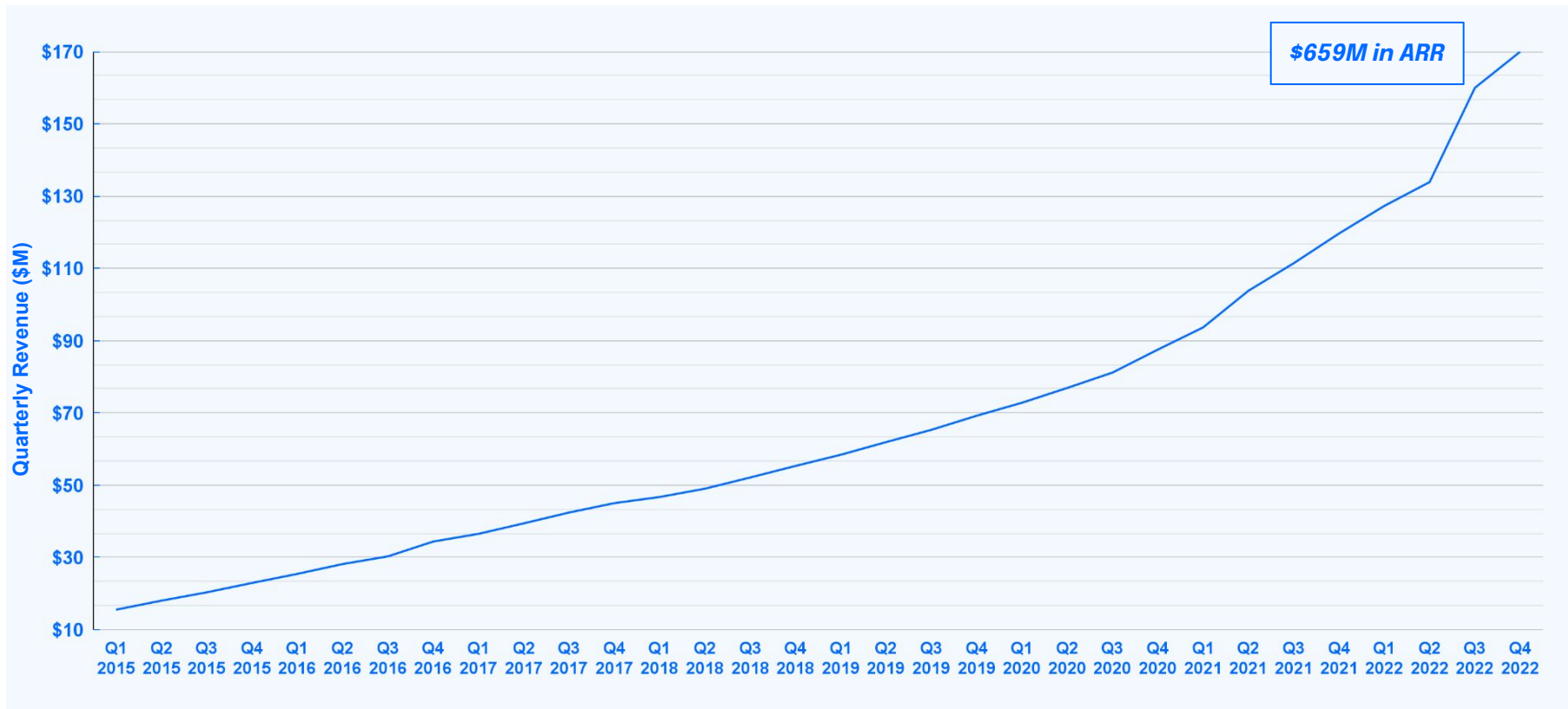
Monthly Revenue



Financials



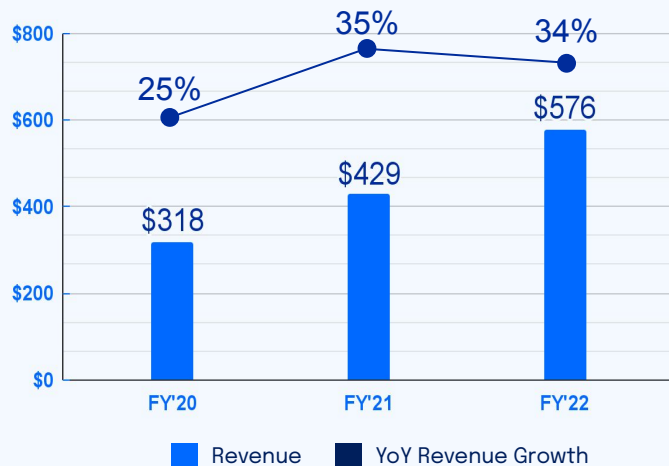
Consistent Performance with Recent Acceleration (ARR)



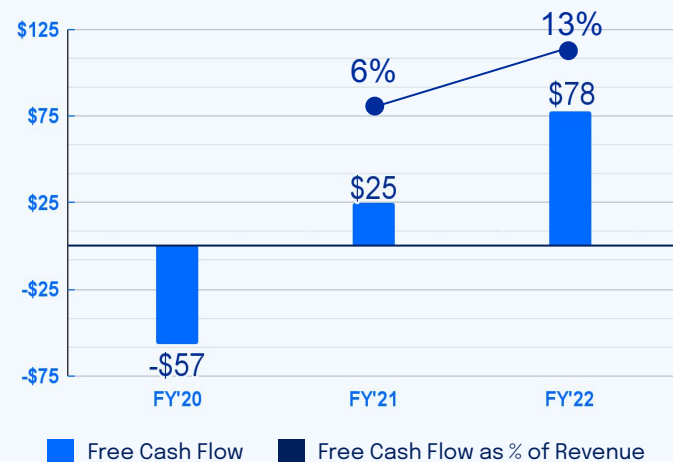


Scale with Free Cash Flow

Revenue (M)



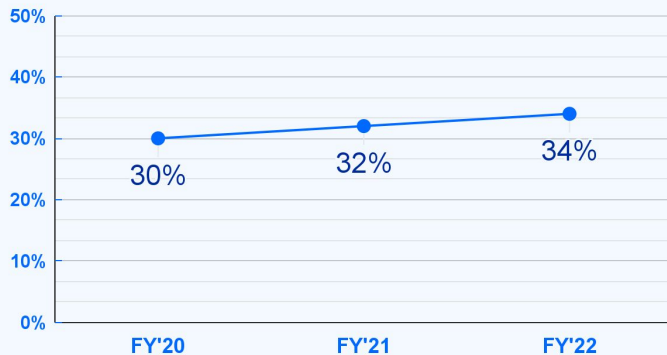
Free Cash Flow (M)



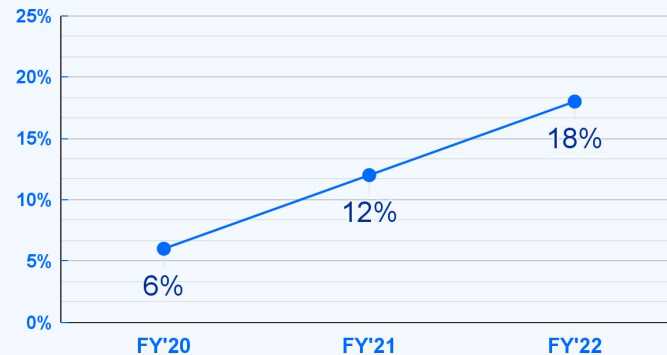


Improving Profitability

Adjusted EBITDA



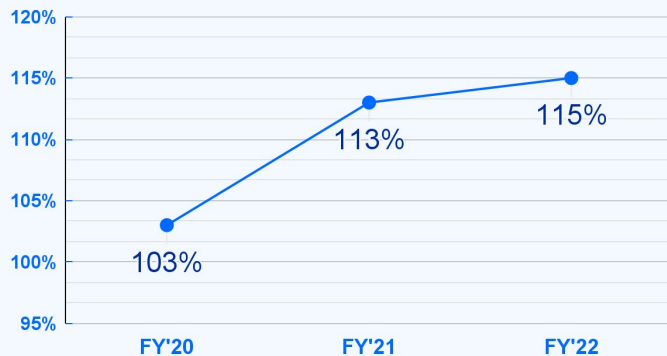
Non-GAAP Operating Margin





Healthy Customer Economics

Net Dollar Retention Rate



Monthly ARPU





Financial Outlook

Metric	Q1 2023	FY 2023
Revenue	\$163-\$165M	\$700-\$720M
Adjusted EBITDA Margin	31-32%	38-39%
Non-GAAP Diluted Net Income Per Share	\$0.28-\$0.29	\$1.65-\$1.69
Free Cash Flow as a % of Revenue	NA	21-22%
Fully Diluted Weighted Average Shares Outstanding	113-115M	114-116M



Financial Highlights and KPIs

	Q4'20	Q1'21	Q2'21	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q4'22
Revenue (M)	\$87.5	\$93.7	\$103.8	\$111.4	\$119.7	\$127.3	\$133.9	\$152.1	\$163.0
Revenue Growth	26%	29%	35%	37%	37%	36%	29%	37%	36%
ARR (M)	\$357	\$388	\$426	\$455	\$490	\$524	\$544	\$641	\$659
ARR Increase (M)	\$22	\$31	\$38	\$28	\$35	\$34	\$20	\$97	\$18
Adj. EBITDA (M)	\$27.0	\$31.1	\$31.2	\$36.6	\$37.8	\$37.6	\$46.0	\$63.7	\$51.0
Non-GAAP Operating Income (M)	\$6.3	\$10.0	\$9.6	\$17.5	\$14.7	\$14.2	\$22.3	\$39.7	\$26.3
Net Dollar Retention Rate (NDR)	105%	107%	113%	116%	116%	117%	112%	118%	112%
Average Revenue Per Customer (ARPU)	\$51.25	\$53.68	\$58.07	\$61.97	\$65.87	\$68.90	\$71.76	\$79.22	\$80.27
Customers Spending More than \$50/month	80.3k	85.2k	90.7k	94.6k	99.4k	102.5k	105.4K	142.1K	144.2k
Customers Spending More than \$50/month Percentage of Total Company Revenue	80%	81%	82%	83%	84%	84%	85%	86%	86%
Capex as % of Revenue	35%	25%	25%	24%	27%	20%	24%	21%	19%



Adjusted Gross Profit and Adjusted Gross Margin

	Three Months Ended December 31,		Year Ended December 31,	
<i>(In thousands)</i>	2022	2021	2022	2021
Gross profit	\$ 99,610	\$ 75,262	\$ 364,395	\$ 257,966
Adjustments:				
Depreciation and amortization	25,103	21,832	93,381	81,937
Stock-based compensation	415	350	1,820	1,147
Adjusted gross profit	<u>\$ 125,128</u>	<u>\$ 97,444</u>	<u>\$ 459,596</u>	<u>\$ 341,050</u>
Gross margin	61 %	63 %	63 %	60 %
Adjusted gross margin	77 %	81 %	80 %	80 %



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

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
<i>(In thousands)</i>				
Loss from operations	\$ (15,095)	\$ (10,139)	\$ (26,219)	\$ (11,186)
Adjustments:				
Stock-based compensation	28,071	24,197	105,829	61,577
Acquisition related compensation	7,082	—	9,443	—
Amortization of acquired intangibles	3,614	351	6,301	671
Acquisition and integration related costs	2,571	189	5,439	469
Impairment of long-lived assets	20	73	1,635	285
Non-GAAP income from operations	\$ 26,263	\$ 14,671	\$ 102,428	\$ 51,816
Operating margin	(9)%	(8)%	(5)%	(3)%
Non-GAAP operating margin	16 %	12 %	18 %	12 %



Adjusted EBITDA and Adjusted EBITDA Margin

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
<i>(In thousands)</i>				
Net loss attributable to common stockholders	\$ (10,066)	\$ (12,125)	\$ (24,283)	\$ (19,503)
Adjustments:				
Depreciation and amortization	28,332	23,449	102,232	88,371
Stock-based compensation	28,070	24,197	105,828	61,577
Interest expense	2,115	1,069	8,396	3,744
Acquisition related compensation	7,082	—	9,443	—
Acquisition and integration related costs	2,571	189	5,439	469
Income tax (benefit) expense	(2,735)	924	(124)	1,302
Loss on extinguishment of debt	—	—	407	3,435
Restructuring and severance	—	—	—	—
Impairment of long-lived assets	20	73	1,635	285
Revaluation of warrants	—	—	—	(556)
Release of VAT reserve	—	—	—	(3,188)
Other ⁽¹⁾	(4,409)	(7)	(10,615)	707
Adjusted EBITDA	\$ 50,980	\$ 37,769	\$ 198,358	\$ 136,643
Adjusted EBITDA margin	31 %	32 %	34 %	32 %

(1) For the three months and year ended December 31, 2022, amount is Other income (expense), net and consists primarily of interest and accretion income from our marketable securities. For the three months and year ended December 31, 2021, amounts are attributable to third-party consulting costs to enhance our finance function.



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

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
<i>(In thousands)</i>				
GAAP Net loss attributable to common stockholders	\$ (10,066)	\$ (12,125)	\$ (24,283)	\$ (19,503)
Stock-based compensation	28,071	24,197	105,829	61,577
Acquisition related compensation	7,082	—	9,443	—
Amortization of acquired intangible assets	3,614	351	6,301	671
Acquisition and integration related costs	2,571	189	5,439	469
Reclaim of VAT reserve	—	—	—	(3,188)
Loss on extinguishment of debt	—	—	407	3,435
Impairment of long-lived assets	20	73	1,635	285
Revaluation of warrants	—	—	—	(556)
Income tax effects of non-GAAP adjustments ⁽¹⁾	(1,026)	144	(34)	235
Non-GAAP net income ⁽²⁾	\$ 30,266	\$ 12,829	\$ 104,737	\$ 43,425
Non-GAAP diluted net income per share ⁽²⁾⁽³⁾	\$ 0.28	\$ 0.11	\$ 0.94	\$ 0.37
Weighted-average shares used to compute Non-GAAP diluted net income per share	112,283	125,693	118,178	118,028

- (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, for the periods presented for 2021.
- (3) Non-GAAP net income has been adjusted for the dilutive impact of deferred financing fees related to the Convertible Notes of \$1,482 and \$696 for the three months ended December 31, 2022 and 2021, respectively, and \$5,910 and \$696 for the years ended December 31, 2022 and 2021, respectively.



Free Cash Flow and Free Cash Flow Margin

	Three Months Ended December 31,		Year Ended December 31,	
<i>(In thousands)</i>	2022	2021	2022	2021
Net cash provided by operating activities	\$ 65,144	\$ 32,737	\$ 195,152	\$ 133,109
Adjustments:				
Capital expenditures - property and equipment	(28,672)	(30,592)	(106,389)	(97,072)
Capital expenditures - internal-use software development	(2,320)	(2,094)	(8,913)	(6,391)
Purchase of intangible assets	—	—	(4,915)	(5,636)
Acquisition and integration related costs	1,531	122	2,863	526
Free cash flow	<u>\$ 35,683</u>	<u>\$ 173</u>	<u>\$ 77,798</u>	<u>\$ 24,536</u>
As a percentage of revenue:				
Net cash provided by operating activities	40 %	27 %	34 %	31 %
Free cash flow margin	22 %	— %	13 %	6 %



Stock-Based Compensation

	Three Months Ended December 31,		Year Ended December 31,	
	2022	2021	2022	2021
<i>(In thousands)</i>				
Cost of revenue	\$ 415	\$ 350	\$ 1,820	\$ 1,147
Research and development	10,737	9,521	39,354	23,315
Sales and marketing	4,356	2,850	14,909	8,471
General and administrative	12,563	11,476	49,746	28,644
Total	<u>\$ 28,071</u>	<u>\$ 24,197</u>	<u>\$ 105,829</u>	<u>\$ 61,577</u>