

GoDaddy needs to cool some, but be ready to pounce

Having spent much of the past two years trading sideways, **GoDaddy Inc. (NYSE: GDDY)** was perhaps one of the last companies investors would have expected to rally into the holidays. But a 35% jump since the start of the month, seemingly out of nowhere, has put paid to that assumption and firmly drawn Wall Street's eyes onto the stock.

It all started with a surprisingly solid earnings report on the second day of November, where analyst expectations for both revenue and earnings were comfortably topped, and forward

guidance was ahead of the consensus. With the stock having traded up or down just 10% for most of the year to date, the results seemed to shake both analysts and investors from their slumber, and they rushed in on the long side.

GoDaddy's margin expansion for the quarter won particular praise, as did the drop in operating expenses, and a fire was lit under its shares. Having traded up into the report's release, suggesting word was out on how surprisingly good it was going to be, the stock gapped up again the next day and just kept going. In the weeks since, there has been a run of analyst upgrades that have added fresh fuel to the rally.

Bullish Comments

Earlier this week, for instance, saw the team at Baird reiterate their Outperform rating on GoDaddy while bumping up their price target to \$110. Even with the recent gains, they still see a ton of room ahead for "valuation expansion" as investors get comfortable with this new version of the business.

And just yesterday, the team at RBC Capital Markets upgraded GoDaddy shares to Outperform, helping no doubt to propel them up to fresh highs before markets closed for the Thanksgiving holiday. RBC analyst Brad Erickson is a fan of the company's acquisition model and is expecting even more margin expansion in the coming quarters.

He's also looking forward to the company's investor dinner at the end of the month, which should serve as a fresh catalyst, with GoDaddy's plans to use generative AI as a key agenda item that should drive even more interest. Erickson's price target of \$124 is a street high, and from where shares closed on Wednesday points to a further upside of at least 30%.

This is all great stuff for the company and its investors, but it's coming at a cost. With hardly any selling seen since as

it raced to hit fresh all-time highs, its Relative Strength Index (RSI) reading has been pushed up into the stratosphere.

The RSI tracks a stock's movement over the previous fourteen days and spits out a number between 0-100 that helps investors figure out if a stock is overbought or oversold. Anything under 30 is considered overbought and due for a snapback, while a reading over 70 points to a stock being oversold and due for a pullback. Heading into the Thanksgiving holiday, GoDaddy's RSI was 86, its highest-ever print. So, what does this mean for those of us on the sidelines and keen to get involved?

Frothy trading

Well, there's no doubt that a fundamental shift in GoDaddy's outlook has occurred, and their shares have firmly broken out of the sideways action that probably deterred a lot of investors over the years. And even with the recent run, analysts are expecting further gains this side of 2024. A frothy RSI, with a print somewhere in the low to mid-70s, can be quite palatable and even attractive as it points to super strong momentum on the buy side, and further gains are easily achievable.

But a print that's closer to 90 basically says to those of us on the sidelines that we've missed the initial run. The only other time GoDaddy's RSI was above 80 was back in 2017 when its shares had a similar run like this with minimal down days. Some steam had to be let off, and sure enough, there was a pullback for about a week that saw shares drop about 10%.

Ultimately, this was a good thing, as it allowed the rally to take a breather and restart, and sure enough, it continued to rally to fresh highs after that. We expect something similar this time, so keep an eye on it, expect some selling, and be ready to pounce for the next stage.

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