

Akamai Technologies (AKAM)

\$93.19 (As of 01/09/20)

Price Target (6-12 Months): **\$101.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: D

Growth: B

Momentum: B

Summary

Akamai is benefiting from robust performance of cloud security business, growth in Media & Carrier Division. Solid demand for Kona Site Defender, Prolexic Solutions, new Bot Manager Premier, and Nominum Services are key catalysts. The traction gained by Enterprise Application Access and Enterprise Threat Protector is noteworthy. Further, increasing adoption of mobile data/apps amid growing mobile data traffic bodes well. Strong traffic growth in video downloads, and OTT and CDN verticals, is a positive. Notably, shares of the company have outperformed the industry in the past one year. However, unfavorable foreign exchange and seasonal summer traffic remain headwinds. Further, increasing bandwidth costs are a major concern.

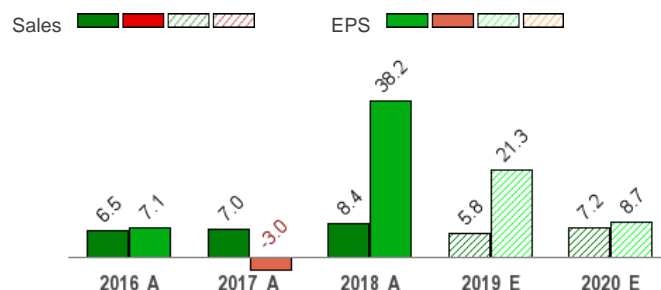
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$93.96 - \$62.16
20 Day Average Volume (sh)	1,218,644
Market Cap	\$15.1 B
YTD Price Change	7.9%
Beta	0.57
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Services
Zacks Industry Rank	Bottom 27% (185 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/11/2020
Earnings ESP	0.0%
P/E TTM	21.5
P/E F1	19.5
PEG F1	1.3
P/S TTM	5.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	751 E	753 E	768 E	811 E	3,077 E
2019	707 A	705 A	710 A	750 E	2,871 E
2018	669 A	663 A	670 A	713 A	2,714 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.17 E	\$1.14 E	\$1.21 E	\$1.33 E	\$4.77 E
2019	\$1.10 A	\$1.07 A	\$1.10 A	\$1.13 E	\$4.39 E
2018	\$0.79 A	\$0.83 A	\$0.94 A	\$1.07 A	\$3.62 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

Headquartered in Cambridge, MA, Akamai Technologies Inc. is a global provider of content delivery network (CDN) and cloud infrastructure services.

The company's solutions accelerate and improve the delivery of content over the Internet, enabling faster response to requests for web pages, streaming of video & audio, business applications, etc. Its offerings are intended to reduce the impact of traffic congestion, bandwidth constraints and capacity limitations on customers.

Moreover, Akamai's solutions allow customers to operate their web transactions anywhere anytime with cost-effective outsourced infrastructure and carry out predictable, scalable and secure e-business at low cost.

These solutions are built on the Akamai Intelligent Edge Platform, which is the technological platform for its business solutions and hosts some of the world's best-known Internet brand names.

The company's cloud optimization solutions help organizations to improve performance, increase availability and enhance the security of applications and key web assets delivered from data-centers to the end user.

Akamai's platform comprises more than 200,000 servers located in over 1,700 networks around the world.

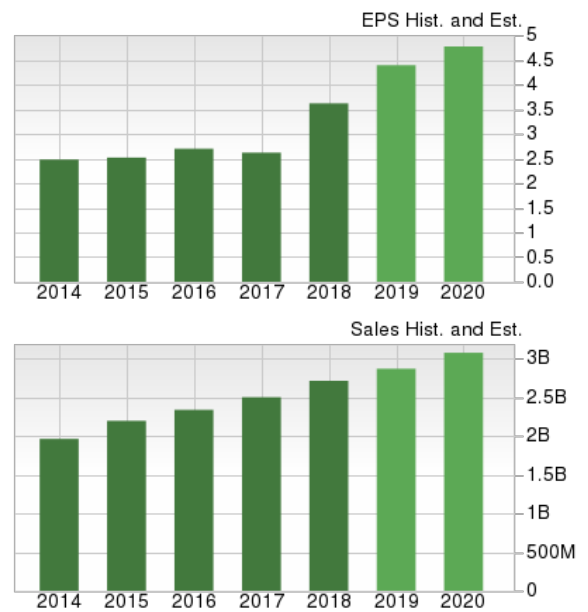
Akamai reported revenues of \$2.7140 billion in 2018, up 9.1% over 2017 tally.

The company has reorganized its business into two main divisions - Media and Carrier (47% of total revenue) and Web Division (53%).

Notably, this marks a shift from the earlier product-focused structure to a new customer-focused one, which reports revenues derived from customers that are managed by the division.

Akamai markets and sells its services and solutions both domestically and internationally through direct sales and more than 100 active channel partners, including AT&T, Orange Business Services, IBM, Deutsche Telecom and Telefonica Group.

In 2018, the company derived 62% of its revenues from the U.S., while the remaining 38% came from its foreign operations.



Reasons To Buy:

- ▲ Akamai is a **leading provider of content delivery network (CDN)** services as its platform handles approximately two trillion web interactions on a daily basis. Its solutions help customers to address the challenges of bandwidth constraints and Internet traffic, and at the same time reduce the need for additional hardware to manage traffic loads. Software distribution plays an important role in bolstering the business as the company benefits from rapid growth in Internet-based distribution of applications, operating system software and online game software. We believe that strong growth in demand for online media and entertainment (High Definition video) over the Internet will drive bandwidth requirements, thereby accelerating demand for the company's solutions going forward.
- ▲ We believe that the **increasing adoption of cloud computing technologies** will be a major growth driver for Akamai, going forward. The company's cloud optimization solutions help organizations to improve performance, increase availability and enhance the security of applications and key web assets delivered from data-centers to the end user. Since a large portion of the revenues is recurring in nature, the company is expected to boost its sales force as well as investments by developing new products to achieve its long-term annual revenue target of \$5 billion by 2020.
- ▲ **Cyber security** is an area that holds a lot of promise in our view. With rapid adoption of cloud computing, security has become a major concern for enterprises. Hackers are using new and sophisticated techniques to take advantage of the security loopholes of the cloud. Large enterprises are expected to increase their security budgets to efficiently address security concerns and instill confidence in cloud computing. We believe that growing demand for Akamai's security solutions will translate into significant growth opportunities over the long term. In the last reported quarter, Cloud Security solutions sales increased 28% year over year to \$216 million. Further, management intends to achieve \$1 billion run rate in security solutions in 2020.
- ▲ We believe that Akamai is well positioned to gain from the **huge growth of mobile data traffic** driven by increasing adoption of mobile data/apps. According to the latest report from Cisco, global mobile data traffic is envisioned to grow at a compounded annual growth rate (CAGR) of 46% between 2017 and 2022, reaching 77.5 exabytes per month by 2022. Given this aggressive growth, mobile networks are likely to face significant congestion and will thus require technological advancements from content delivery networks. We believe that the company has significant growth opportunities in the mobile segment, based on its strong and innovative product portfolio. Furthermore, major events like the Olympics are expected to boost the demand for online media, thereby accelerating demand for the company's solutions going forward. Moreover, accelerated deployment of 5G is expected to act as a tailwind over the longer haul.
- ▲ Akamai's **strong balance sheet and cash flow** generation ability enables it to pursue any growth strategy that includes acquisitions and further share repurchase. As of Sep 30, 2019, Akamai's cash and cash equivalents (and total marketable securities) were \$1.57 billion. The company generated cash flow from operations of \$293.8 million. In the third quarter, Akamai repurchased around 2 million shares for \$176 million. Further, the company had 162 million shares outstanding as of Sep 30, 2019. The company's strong and relatively stable cash flow and continuing share repurchase activity make the stock quite attractive, in our view.

Increasing demand for cloud infrastructure solutions, security, mobile products and online video amid growing data traffic are favoring the company's growth prospects.

Reasons To Sell:

- ▼ Akamai is facing **increasing competition and pricing pressure** as new competitors and non-traditional players like Amazon, Netflix, Verizon and Comcast enter the market, joining traditional players like Limelight Network and Packeteer. Also, Amazon Web Services has been consistently gaining traction and can pose serious challenges for Akamai's business. Although Akamai has a strong foothold in the market, with rapidly changing technology, evolving industry standards and frequent introduction of products and services, competition has become intense, resulting in a decelerating growth rate. Meanwhile, we do not believe that barriers to entry are significant enough to keep out competition, since the market is becoming increasingly attractive and Akamai essentially provides a commodity like service. Moreover, Amazon's entry into the digital audio, video streaming and cloud computing lines of business is an added risk. We expect the company will continue to face significant competition and pricing pressure going forward. Furthermore, Akamai has traditionally charged a higher premium compared to what its competitors like Limelight, EdgeCast (acquired by Verizon) and Level3 charge for content delivery. This has helped it to maintain higher margins and earn more profits. However, the company is becoming more aggressive in terms of pricing, especially in case of video content, so as to attract more customers and traffic to its network. We believe this aggressive pricing will hurt profitability over the long term.
- ▼ Akamai's business is also being hurt by the Do it yourself (DIY) initiatives of some key clients in the CDN space. In the recent past, some big players like Netflix and Apple have developed their own CDN, which will allow them to reduce their dependence on providers like Akamai. **Loss of such large customers** is expected to have a negative impact on the company's top line in the near term.
- ▼ Growth in the mobile Internet market has created a period of uncertainty. Mobile traffic growth is both a result of higher Internet usage as well as the shift of some traffic from wireline to wireless networks. This shift in data usage could hurt Akamai's **wireline CDN business** if the company is unable to quickly adapt to the change. Greater flexibility in managing data traffic could also prompt wireless service providers to incorporate their own CDN-like technologies, resulting in fresh competition for the company.
- ▼ **Increasing total bandwidth costs** remain a headwind for Akamai. The company believes that bandwidth costs will continue to increase as a result of expected rise in traffic levels, somewhat offset by anticipated reductions in bandwidth costs per unit. Moreover, higher level of sales representative hiring is expected to hurt margins in the near term.

Akamai's business is being hurt by the DIY initiatives of some key clients in the CDN space amid increasing total band width costs.

Last Earnings Report

Akamai Earnings and Revenues Tops Q3 Estimates

Akamai reported non-GAAP third-quarter 2019 earnings of \$1.1 per share beating the Zacks Consensus Estimate of \$1.01. The figure also surged 17% from the year-ago quarter (up 18% adjusted for foreign exchange).

Better-than-expected year-over-year growth in earnings can be attributed to robust increase in revenues, and favorable impact of the cost reduction initiatives.

Revenues of \$710 million outpaced the Zacks Consensus Estimate of \$702 million and improved 6% from the year-ago quarter (up 7% adjusted for foreign exchange).

The top line benefited from robust performance of cloud security business, strong traffic witnessed in OTT video vertical and media business, and operational efficiency.

Excluding Internet Platform Customers, revenues increased 6% year over year (up 7% adjusted for foreign exchange) to \$666 million. Revenues from Internet Platform Customers were \$44 million, up 2% from the year-ago quarter.

Solid Growth in Cloud Security Solutions

Cloud Security Solutions revenues were \$216 million, surging almost 28% year over year (up 29% adjusted for foreign exchange).

Solid growth was driven by strong demand for Kona Site Defender, Bot Manager and Prolexic Solutions. Further, the traction gained by Enterprise Application Access and Enterprise Threat Protector is providing the company a competitive edge against Zscaler.

Moreover, Akamai is gaining from synergies from the buyout of Janrain, which is aimed at enhancing the company's security solutions portfolio amid growing data traffic.

Management remains optimistic over the growing influence of its new security solutions, including Akamai Enterprise Defender and Akamai Identity Cloud (formerly Janrain Identity Cloud).

Revenues from CDN and other solutions of \$493.9 million declined 1% on a year-over-year basis (down 1% adjusted for foreign exchange).

Segment Details

Web Division revenues increased 9% year over year (up 10% adjusted for foreign exchange) to \$390 million, primarily on account of solid cloud security solutions growth.

Media and Carrier Division revenues of \$320 million improved 2% (up 3% adjusted for foreign exchange) from the year-ago quarter. Management stated that growth was primarily aided by strong OTT video traffic growth and other global media accounts of Internet platform users.

Traffic growth was especially strong in video downloads, and OTT and CDN verticals.

Robust Growth in International Revenues

U.S. revenues were \$413 million, flat on a year-over-year basis. International revenues were \$297 million, up 15% year over year (up 18% adjusted for foreign exchange) primarily on account of robust performance in Asia Pacific and EMEA region.

Management stated that foreign exchange volatility affected revenues by \$6 million from the year-ago quarter. Further, the foreign exchange movement deterred revenue growth by \$2 million sequentially.

Operating Margins

Adjusted EBITDA margin of 42%, registered an expansion of 100 bps on a year-over-year basis. This can primarily be attributed to higher revenues and improving operational efficiency.

Cash gross margin expanded 100 bps on a year-over-year basis at 78%.

Non-GAAP operating margin expanded 200 bps to 29%.

Balance Sheet & Cash Flow

As of Sep 30, 2019, Akamai's cash and cash equivalents (and total marketable securities) were \$1.57 billion as compared with \$1.33 billion reported at the end of the previous quarter.

The company generated cash flow from operations of \$293.8 million as compared with \$318 million in the previous quarter.

In the reported quarter, Akamai repurchased around 2 million shares for \$176 million. Further, the company had 162 million shares outstanding as of Sep 30, 2019.

Guidance for Q4

For fourth-quarter 2019, Akamai envisions revenues between \$735 million and \$755 million.

Quarter Ending **09/2019**

Report Date	Oct 28, 2019
Sales Surprise	1.17%
EPS Surprise	8.91%
Quarterly EPS	1.10
Annual EPS (TTM)	4.34

Non-GAAP earnings are envisioned in the range of \$1.10 to \$1.15 per share.

Raised 2019 Outlook

Akamai revised guidance for 2019 on growing cloud of streaming services and increasing adoption of security solutions.

The company expects full-year 2019 revenues in the range of \$2.857-\$2.877 billion, compared with previously predicted range of \$2.84-\$2.87 billion.

Non-GAAP earnings are now projected to be between \$4.36 and \$4.42 per share, compared with earlier guided range of \$4.23 and \$4.30 per share.

The company is optimistic regarding plans to achieve non-GAAP operating margin of 29% in 2019. Adjusted EBITDA margin for fiscal 2019 is expected to 42%.

Recent News

On **Nov 4, 2019**, Akamai closed the buyout of Exceda, aimed at addressing the rise in demand for security and cloud infrastructure solutions and expand presence in Latin America.

On **Oct 16, 2019**, Akamai rolled out product enhancements to Security and Personalization Services (SPS) Secure Business offering. The aim is to aid Internet service providers (ISPs) deliver robust cybersecurity solutions to small and mid-sized business (SMB) clients.

On **Sep 20, 2019**, Akamai announced that Gartner recognized the company as a "Leader" in the "2019 Magic Quadrant for Web Application Firewalls."

On **Sep 19, 2019**, Akamai announced acquisition of multifactor authentication technology from KryptCo to enhance the acquirer's zero trust solution.

On **Sep 9, 2019**, Akamai inked deal to acquire Exceda, with an aim to expand presence in Latin America.

On **Aug 13, 2019**, Akamai priced it previously announced \$1 billion aggregate principal amount of convertible unsecured senior notes due 2027. The offering is slated to close on Aug 16, 2019, which is subject to customary conditions.

Valuation

Akamai shares are up 13.2% in the past six-month period and 47.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 15.6% and 15% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 12.4% and 34.5%, respectively.

The S&P 500 index is up 10.8% in the past six-month period and 28% in the past year.

The stock is currently trading at 19.45X forward 12-month earnings, which compares to 27.25X for the Zacks sub-industry, 22.73X for the Zacks sector and 18.94X for the S&P 500 index.

Over the past five years, the stock has traded as high as 36.43X and as low as 17.93X, with a 5-year median of 25.5X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$101 price target reflects 21.09X forward 12-month earnings.

The table below shows summary valuation data for AKAM

Valuation Multiples - AKAM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.45	27.25	22.73	18.94
	5-Year High	36.43	43.77	22.73	19.34
	5-Year Low	17.93	22.46	16.86	15.17
	5-Year Median	25.5	35.64	19.24	17.44
EV/Sales TTM	Current	4.86	6.24	4.3	3.28
	5-Year High	6.54	13.69	4.3	3.3
	5-Year Low	2.77	4.73	2.56	2.16
	5-Year Median	4.26	9.83	3.44	2.8
EV/EBITDA TTM	Current	11.47	18.8	12.12	11.99
	5-Year High	16.47	35.94	12.6	12.86
	5-Year Low	7.81	10	7.67	8.48
	5-Year Median	11.64	24.65	10.52	10.67

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Bottom 27% (185 out of 254)



Top Peers

Cisco Systems, Inc. (CSCO)	Neutral
Citrix Systems, Inc. (CTXS)	Neutral
F5 Networks, Inc. (FFIV)	Neutral
Juniper Networks, Inc. (JNPR)	Neutral
NetScout Systems, Inc. (NTCT)	Neutral
Palo Alto Networks, Inc. (PANW)	Neutral
TiVo Corporation (TIVO)	Neutral
VMware, Inc. (VMW)	Neutral

Industry Comparison Industry: Internet - Services				Industry Peers		
	AKAM Neutral	X Industry	S&P 500	CSCO Neutral	JNPR Neutral	VMW Neutral
VGM Score	B	-	-	B	D	D
Market Cap	15.06 B	847.53 M	23.94 B	200.74 B	8.16 B	62.22 B
# of Analysts	11	2.5	13	12	9	11
Dividend Yield	0.00%	0.00%	1.78%	2.96%	3.12%	0.00%
Value Score	D	-	-	C	B	C
Cash/Price	0.11	0.16	0.04	0.14	0.28	0.03
EV/EBITDA	18.09	5.80	13.97	10.80	10.44	17.51
PEG Ratio	1.33	2.60	2.03	2.49	2.58	1.75
Price/Book (P/B)	4.39	2.73	3.33	5.83	1.82	10.70
Price/Cash Flow (P/CF)	16.08	22.23	13.73	13.75	12.13	23.36
P/E (F1)	19.53	27.85	18.79	14.56	13.25	23.07
Price/Sales (P/S)	5.31	2.76	2.64	3.86	1.85	6.38
Earnings Yield	5.12%	1.32%	5.32%	6.87%	7.55%	4.33%
Debt/Equity	0.61	0.09	0.72	0.42	0.40	0.63
Cash Flow (\$/share)	5.79	0.14	6.94	3.44	2.01	6.50
Growth Score	B	-	-	B	D	F
Hist. EPS Growth (3-5 yrs)	8.55%	23.67%	10.56%	8.00%	2.86%	15.51%
Proj. EPS Growth (F1/F0)	8.65%	21.95%	7.49%	4.86%	7.19%	3.95%
Curr. Cash Flow Growth	31.00%	0.09%	14.83%	6.95%	-22.13%	23.44%
Hist. Cash Flow Growth (3-5 yrs)	13.71%	16.56%	9.00%	3.53%	1.14%	12.60%
Current Ratio	3.74	1.74	1.23	1.70	2.24	0.58
Debt/Capital	37.71%	9.97%	42.99%	29.63%	28.51%	38.53%
Net Margin	15.98%	-5.73%	11.08%	21.15%	8.35%	67.21%
Return on Equity	16.76%	-4.29%	17.16%	35.01%	9.54%	61.67%
Sales/Assets	0.51	0.62	0.55	0.53	0.49	0.54
Proj. Sales Growth (F1/F0)	7.17%	14.73%	4.20%	-1.63%	1.11%	12.66%
Momentum Score	B	-	-	B	D	A
Daily Price Chg	1.96%	0.00%	0.53%	-0.42%	1.08%	0.16%
1 Week Price Chg	0.86%	0.00%	-0.30%	-0.29%	-0.29%	-0.09%
4 Week Price Chg	11.82%	4.60%	1.92%	3.61%	0.08%	-2.78%
12 Week Price Chg	2.03%	2.03%	6.54%	0.62%	1.58%	-0.18%
52 Week Price Chg	47.62%	-11.48%	22.58%	9.44%	-13.77%	1.96%
20 Day Average Volume	1,218,644	66,331	1,580,816	18,120,234	2,804,087	938,433
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	-0.53%	0.00%
(F1) EPS Est 12 week change	2.18%	-4.46%	-0.50%	-3.29%	-7.90%	-0.87%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	-2.15%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	B
Momentum Score	B
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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