

Akamai Technologies (AKAM)

\$97.45 (As of 02/12/20)

Price Target (6-12 Months): **\$107.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: A

Summary

Akamai delivered stellar Q4 results, which benefited from robust cloud security solutions growth and strong holiday season traffic in e-commerce and media verticals. Strong performance of cloud security business, and growth in Media & Carrier Division drove the top line. 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 on growing mobile data traffic bodes well. Strong traffic growth in video downloads, is a positive. Notably, shares of the company have outperformed the industry in the past year. However, unfavorable foreign exchange and seasonal summer traffic remain headwinds. Increasing bandwidth costs are a major concern.

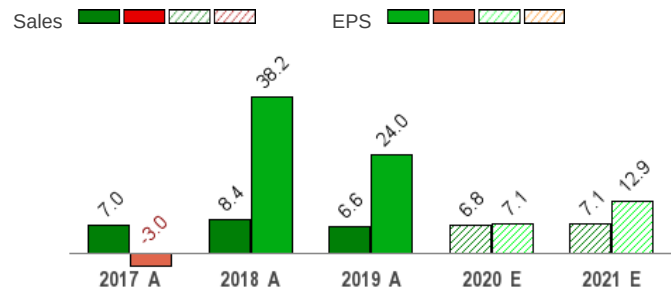
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$103.29 - \$67.28
20 Day Average Volume (sh)	1,165,975
Market Cap	\$15.7 B
YTD Price Change	12.8%
Beta	0.53
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Services
Zacks Industry Rank	Top 39% (98 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.9%
Last Sales Surprise	3.0%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	05/05/2020
Earnings ESP	-1.6%
P/E TTM	21.7
P/E F1	20.3
PEG F1	1.4
P/S TTM	5.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	794 E	803 E	821 E	865 E	3,311 E
2020	749 E	753 E	768 E	821 E	3,092 E
2019	707 A	705 A	710 A	772 A	2,894 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.27 E	\$1.27 E	\$1.36 E	\$1.44 E	\$5.43 E
2020	\$1.17 E	\$1.15 E	\$1.21 E	\$1.34 E	\$4.81 E
2019	\$1.10 A	\$1.07 A	\$1.10 A	\$1.23 A	\$4.49 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 02/12/2020. The reports text is as of 02/13/2020.

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.

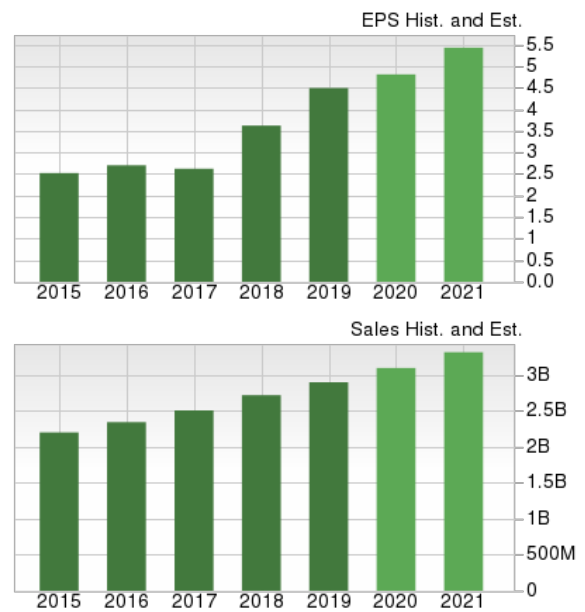
Akamai reported revenues of \$2.894 billion in 2019, up 7% year over year (up 8% adjusted for foreign exchange).

The company has reorganized its business into two main divisions - Media and Carrier (45.9% of total revenue in 2019) and Web Division (54.1%).

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 2019, the company derived 58.5% of its revenues from the U.S., while the remaining 41.5% 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 .
- ▲ **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 2019, Cloud Security solutions sales increased 30% year over year (adjusted for foreign exchange) to \$849 million. Further, management intends to achieve \$1 billion run rate in security solutions in the long term.
- ▲ 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 Dec 31, 2019, Akamai's cash and cash equivalents (and total marketable securities) were \$1.537 billion. The company generated cash flow from operations of \$282.1 million. In the fourth quarter, Akamai repurchased around 0.5 million shares for \$42.7 million. Further, it had 162 million shares outstanding as of Dec 31, 2019. Free cash flow came in at \$148.5 million. 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 Q4 Earnings and Revenues Beat Estimates

Akamai Technologies, Inc. reported non-GAAP fourth-quarter 2019 earnings of \$1.23 per share beating the Zacks Consensus Estimate by 8.9%. The figure also surged 15% from the year-ago quarter (up 16% 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 and lower tax rate.

Revenues of \$772.1 million comfortably outpaced the Zacks Consensus Estimate of \$750 million and improved 8% from the year-ago quarter (up 9% 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 holiday seasonality in e-commerce domain.

Excluding Internet Platform Customers, revenues improved 7% year over year (up 8% adjusted for foreign exchange) to \$720.2 million.

Revenues from Internet Platform Customers were \$51.9 million, up 20% from the year-ago quarter. Management noted that "event-specific" revenues of \$6 million were generated in the reported quarter, which the company does not anticipate in first-quarter 2020.

Solid Growth in Cloud Security Solutions

Cloud Security Solutions revenues were \$237.9 million, surging 29% 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 in the Internet access security vertical.

Management remains optimistic regarding the growing influence of its new security solutions, including Secure Web Gateway, Multi-Factor Authentication, Page Integrity Manager, Akamai Enterprise Defender and Akamai Identity Cloud. Particularly, acquisition of KryptCo is expected to aid the company strengthen its Secure Web Gateway solution.

Revenues from CDN and other solutions of \$534.2 million increased 1% on a year-over-year basis (up 1% adjusted for foreign exchange).

Segment Details

Web Division revenues increased 9% year over year (up 9% adjusted for foreign exchange) to \$419.5 million, primarily on account of solid traffic growth driven by holiday seasonality in e-commerce and media verticals.

Media and Carrier Division revenues of \$352.6 million grew 8% (up 8% adjusted for foreign exchange) from the year-ago quarter. Management stated that growth was primarily driven by robust demand for OTT video services, and gaming and software downloads.

Robust Growth in International Revenues

U.S. revenues were \$446 million, up 3% on a year-over-year basis. International revenues were \$326.1 million, up 17% year over year (up 18% adjusted for foreign exchange) primarily on account of robust performance in Asia Pacific.

Management stated that foreign exchange volatility negatively impacted revenues by \$3 million on a year-over-year basis.

Margins in Detail

Adjusted EBITDA margin of 41% contracted 100 basis points (bps) on a year-over-year basis.

Cash gross margin contracted 100 bps on a year-over-year basis to 78%.

Cash operating expenses (as a percentage of revenues) expanded 20 bps from the year-ago quarter to 36.9%.

Non-GAAP operating margin expanded 100 bps to 29%.

Balance Sheet & Cash Flow

As of Dec 31, 2019, Akamai's cash and cash equivalents (and total marketable securities) were \$1.537 billion as compared with \$1.570 billion as of Sep 30, 2019.

The company generated cash flow from operations of \$282.1 million as compared with \$297.4 million in the previous quarter.

In the reported quarter, Akamai repurchased 0.5 million shares for \$42.7 million. Further, the company had 162 million shares outstanding as of Dec 31, 2019.

Free cash flow came in at \$148.5 million, compared with \$144.8 million reported in the previous quarter.

Guidance

Quarter Ending **12/2019**

Report Date	Feb 11, 2020
Sales Surprise	2.98%
EPS Surprise	8.85%
Quarterly EPS	1.23
Annual EPS (TTM)	4.50

For first-quarter 2020, Akamai envisions revenues between \$741 million and \$755 million.

Non-GAAP earnings are envisioned in the range of \$1.13 to \$1.18 per share.

Akamai expects full-year 2020 revenues in the range of \$3.055-\$3.105 billion.

Non-GAAP earnings are projected to be between \$4.80 and \$4.95 per share.

The company is optimistic regarding plans to achieve non-GAAP operating margin of 30% in 2020. Adjusted EBITDA margin for 2020 is expected to 43%.

Recent News

On **Jan 29, 2020**, Akamai announced that Forrester has recognized the company as a "Leader" in bot management evaluation in the report titled "The Forrester New Wave: Bot Management, Q1 2020."

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 15.9% in the past six-month period and 37.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 25.2% and 26.9% in the past six-month period, respectively. Over the past year, the Zacks sub-industry and the sector are up 10.5% and 32.1%, respectively.

The S&P 500 index is up 20.6% in the past six-month period and 24.7% in the past year.

The stock is currently trading at 20.09X forward 12-month earnings, which compares to 27.87X for the Zacks sub-industry, 23.33X for the Zacks sector and 19.41X 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 25.34X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$107 price target reflects 22.06X 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	20.09	27.87	23.33	19.41
	5-Year High	36.43	43.63	23.33	19.41
	5-Year Low	17.93	22.43	16.87	15.18
	5-Year Median	25.34	35.47	19.32	17.47
EV/Sales TTM	Current	5.15	6.56	4.52	3.11
	5-Year High	6.54	13.25	4.52	3.27
	5-Year Low	2.77	4.72	2.56	2.15
	5-Year Median	4.26	9.74	3.46	2.77
EV/EBITDA TTM	Current	13.29	19.89	12.74	11.36
	5-Year High	16.47	35.76	12.74	12.85
	5-Year Low	7.81	9.98	7.68	8.47
	5-Year Median	11.61	24.19	10.53	10.7

As of 02/12/2020

Industry Analysis Zacks Industry Rank: Top 39% (98 out of 254)



Top Peers

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

Industry Comparison Industry: Internet - Services				Industry Peers		
	AKAM Neutral	X Industry	S&P 500	CSCO Neutral	JNPR Neutral	VMW Neutral
VGM Score	B	-	-	C	F	F
Market Cap	15.75 B	901.70 M	24.53 B	211.82 B	8.18 B	65.12 B
# of Analysts	11	3	13	12	9	11
Dividend Yield	0.00%	0.00%	1.75%	2.80%	3.11%	0.00%
Value Score	C	-	-	C	B	C
Cash/Price	0.10	0.17	0.04	0.14	0.25	0.03
EV/EBITDA	19.37	5.14	13.98	11.44	10.64	18.30
PEG Ratio	1.40	2.36	2.09	2.62	2.06	1.73
Price/Book (P/B)	4.31	3.05	3.29	6.15	1.77	11.20
Price/Cash Flow (P/CF)	14.54	21.90	13.69	14.51	12.93	24.45
P/E (F1)	20.56	29.30	19.19	15.36	13.94	22.72
Price/Sales (P/S)	5.44	3.14	2.68	4.11	1.84	6.68
Earnings Yield	4.94%	1.34%	5.21%	6.51%	7.16%	4.40%
Debt/Equity	0.69	0.10	0.71	0.42	0.37	0.63
Cash Flow (\$/share)	6.70	0.14	6.92	3.44	1.89	6.50
Growth Score	B	-	-	C	F	F
Hist. EPS Growth (3-5 yrs)	8.55%	24.13%	10.85%	8.00%	-0.59%	15.51%
Proj. EPS Growth (F1/F0)	7.05%	18.92%	7.30%	4.86%	1.87%	6.36%
Curr. Cash Flow Growth	14.74%	-7.03%	8.56%	6.95%	-8.77%	23.44%
Hist. Cash Flow Growth (3-5 yrs)	13.71%	16.08%	8.36%	3.53%	-15.41%	12.60%
Current Ratio	3.22	1.70	1.23	1.70	2.08	0.58
Debt/Capital	40.90%	9.97%	42.91%	29.63%	26.75%	38.53%
Net Margin	16.52%	-5.00%	11.81%	21.44%	7.76%	67.21%
Return on Equity	16.86%	-3.62%	16.92%	36.56%	9.16%	61.67%
Sales/Assets	0.48	0.62	0.54	0.54	0.50	0.54
Proj. Sales Growth (F1/F0)	6.95%	14.45%	3.96%	-1.62%	1.21%	12.61%
Momentum Score	A	-	-	C	F	D
Daily Price Chg	1.12%	0.02%	0.64%	1.63%	-0.16%	1.72%
1 Week Price Chg	2.97%	1.78%	2.47%	4.35%	3.57%	5.55%
4 Week Price Chg	2.45%	0.00%	1.87%	4.00%	-0.20%	6.17%
12 Week Price Chg	12.19%	4.63%	6.69%	10.76%	-4.42%	-6.34%
52 Week Price Chg	38.48%	-7.50%	16.42%	5.12%	-8.60%	-4.89%
20 Day Average Volume	1,165,975	65,022	2,019,212	17,290,234	4,545,751	969,671
(F1) EPS Est 1 week change	0.65%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.65%	0.00%	-0.06%	0.00%	-2.82%	0.00%
(F1) EPS Est 12 week change	0.53%	0.00%	-0.19%	-0.44%	-4.64%	-6.61%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.16%	0.00%	-19.41%	0.00%

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	C
Growth Score	B
Momentum Score	A
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.