

Akamai Technologies (AKAM)

\$97.87 (As of 04/29/20)

Price Target (6-12 Months): **\$103.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/16/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: B

Momentum: A

Summary

Akamai delivered stellar Q1 results on the back of robust cloud security solutions growth and increased Internet traffic due to the coronavirus pandemic. Strong performance of Web division and the Media & Carrier division drove the top line. Moreover, solid demand for DDoS prevention, application-layer firewall and bot management services are key catalysts. The traction gained by Secure Web Gateway, Page Integrity Manager, and Enterprise Defender is noteworthy. Further, increasing adoption of mobile data/apps on growing mobile data traffic bodes well. Notably, shares of the company have outperformed the industry in the past year. However, unfavorable foreign exchange and seasonal summer traffic are headwinds. Further, the company has withdrawn 2020 guidance due to uncertainties related to the coronavirus pandemic.

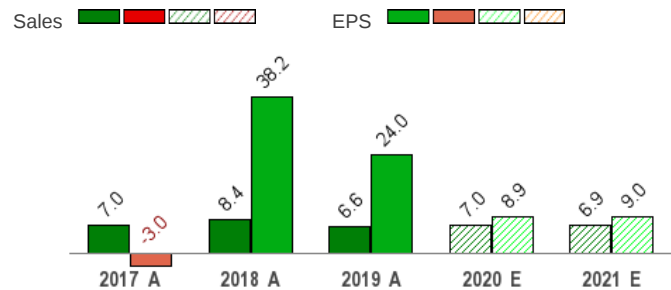
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$108.25 - \$73.19
20 Day Average Volume (sh)	2,539,605
Market Cap	\$15.8 B
YTD Price Change	13.3%
Beta	0.31
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Services
Zacks Industry Rank	Top 19% (47 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.4%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	08/04/2020
Earnings ESP	-2.1%
P/E TTM	21.3
P/E F1	20.0
PEG F1	1.4
P/S TTM	5.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	805 E	808 E	821 E	885 E	3,311 E
2020	764 A	770 E	763 E	821 E	3,096 E
2019	707 A	705 A	710 A	772 A	2,894 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.27 E	\$1.25 E	\$1.30 E	\$1.47 E	\$5.33 E
2020	\$1.20 A	\$1.16 E	\$1.22 E	\$1.36 E	\$4.89 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 04/29/2020. The reports text is as of 04/30/2020.

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.

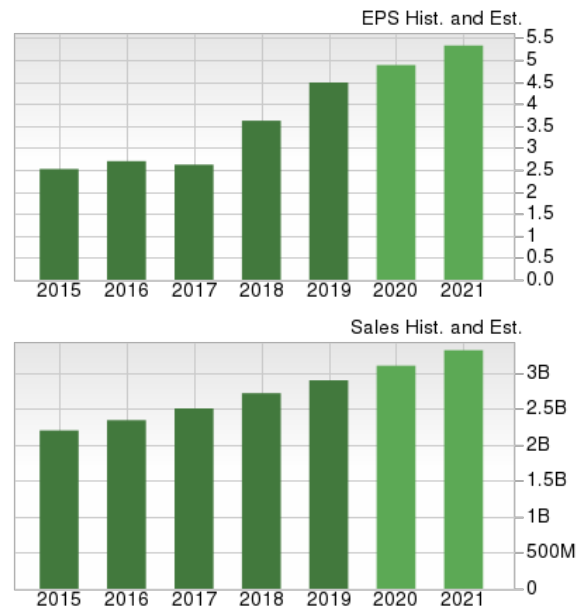
Akamai reported revenues of \$2.894 billion in 2019.

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. Moreover, Cloud Security solutions increased 28% year over year (adjusted for foreign exchange) to \$240.1 million in first-quarter 2020. 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 46.4% 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 Mar 31, 2020, Akamai's cash and cash equivalents (and total marketable securities) were \$1.249 billion compared with \$1.537 billion as Dec 31, 2020. The company generated cash flow from operations of \$223.2 million compared with \$282.1 million in the previous quarter. In the first quarter, Akamai repurchased around 0.9 million shares for \$81 million. Further, it had 162 million shares outstanding as of Mar 31, 2020. Free cash flow came in at \$7.8 million compared with \$148.5 million in the previous quarter. 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 Q1 Earnings and Revenues Top Estimates

Akamai Technologies, Inc reported non-GAAP first-quarter 2020 earnings of \$1.20 per share which surged 9% from the year-ago quarter (up 11% adjusted for foreign exchange).

Better-than-expected year-over-year growth in earnings can be attributed to robust increase in revenues, operational efficiency and favorable impact of and lower tax rate.

Revenues of \$764.3 million improved 8% from the year-ago quarter (up 9% adjusted for foreign exchange).

The top line benefited from robust performance of cloud security business, and increased traffic as more enterprises moved their operations online due to the coronavirus outbreak.

Excluding Internet Platform Customers, revenues improved 9% year over year (up 10% adjusted for foreign exchange) to \$719.6 million.

Revenues from Internet Platform Customers were \$44.7 million, down 5% from the year-ago quarter.

Solid Growth in Cloud Security Solutions

Cloud Security Solutions revenues were \$240.3 million, surging 26% year over year (up 28% adjusted for foreign exchange).

Solid growth was driven by strong demand for its DDoS prevention, application-layer firewall and bot management services. Further, the Akamai's next-gen Zero Trust enterprise security solutions witnessed robust adoption during the quarter.

Management remains optimistic regarding the growing influence of its new security solutions, including Secure Web Gateway, Page Integrity Manager, and Akamai Enterprise Defender. The company also expects demand for security solutions to strengthen due to the outbreak as attackers start taking advantage of the pandemic.

Revenues from CDN and other solutions of \$524 million decreased 1% on a year-over-year basis (up 2% adjusted for foreign exchange).

Segment Details

Web Division revenues increased 8% year over year (up 10% adjusted for foreign exchange) to \$406 million, primarily on account of strong growth in the security business.

Media and Carrier Division revenues of \$358.3 million grew 8% (up 9% adjusted for foreign exchange) from the year-ago quarter. Management stated that growth was primarily driven by robust demand for OTT video services, gaming, social media, news and information sites as people were forced to stay at home due to the pandemic.

Robust Growth in International Revenues

U.S. revenues were \$428.9 million, up 3% on a year-over-year basis. International revenues were \$335.4 million, up 16% year over year (up 19% adjusted for foreign exchange) primarily on account of robust performance in Asia Pacific and Japan.

Management stated that foreign exchange volatility negatively impacted revenues by \$7 million on a year-over-year basis.

Margins in Detail

Adjusted EBITDA margin of 43% expanded 100 basis points (bps) on a year-over-year basis.

Non-GAAP Cash gross margin contracted 100 bps on a year-over-year basis to 77%.

Cash operating expenses (as a percentage of revenues) contracted 172 bps from the year-ago quarter to 34%.

Non-GAAP operating margin remained flat year over year at 30%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, Akamai's cash and cash equivalents (and total marketable securities) were \$1.249 billion as compared with \$1.537 billion as of Dec 31, 2019.

Akamai had total debt of \$2.3 billion as of Mar 31, 2020, unchanged from the previous quarter.

The company generated cash flow from operations of \$223.2 million as compared with \$282.1 million in the previous quarter.

In the reported quarter, Akamai repurchased 0.9 million shares for \$81 million. Further, the company had 162 million shares outstanding as of Mar 31, 2020.

Free cash flow came in at \$7.8 million, compared with \$148.5 million reported in the previous quarter.

Guidance

Quarter Ending 03/2020

Report Date	Apr 28, 2020
Sales Surprise	2.19%
EPS Surprise	4.35%
Quarterly EPS	1.20
Annual EPS (TTM)	4.60

For first-quarter 2020, Akamai envisions revenues between \$752 million and \$778 million.

Non-GAAP earnings are envisioned in the range of \$1.18 to \$1.24 per share.

The company has withdrawn its guidance for 2020, owing to uncertainties related to the global pandemic.

Recent News

On Feb 27, 2020, Akamai closed an asset purchase transaction with Instart to acquire customer contracts and intellectual property to enhance the acquirer's page integrity solution.

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.

Valuation

Akamai shares are up 13.3% in the year-to-date period and 20.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are down 0.2% and 2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is down 6.1% while the sector is up 6.9%.

The S&P 500 index is down 8.9% in the year-to-date period and up 0.2% in the past year.

The stock is currently trading at 19.44X forward 12-month earnings, which compares to 30.76X for the Zacks sub-industry, 23.06X for the Zacks sector and 20.81X 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 25.10X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$103 price target reflects 20.47X 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	19.44	30.76	23.06	20.81
	5-Year High	36.43	43.46	23.06	20.81
	5-Year Low	17.93	22.00	16.71	15.19
	5-Year Median	25.10	34.99	19.23	17.44
EV/Sales TTM	Current	5.17	5.68	3.92	2.92
	5-Year High	6.54	13.40	4.44	3.45
	5-Year Low	2.77	4.25	2.58	2.16
	5-Year Median	4.26	9.38	3.57	2.82
EV/EBITDA TTM	Current	13.51	18.31	11.38	10.76
	5-Year High	16.56	36.58	12.85	12.87
	5-Year Low	7.54	9.99	7.56	8.27
	5-Year Median	11.62	22.71	10.62	10.78

As of 04/29/2020

Industry Analysis Zacks Industry Rank: Top 19% (47 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Cisco Systems, Inc. (CSCO)	Neutral	3
Citrix Systems, Inc. (CTXS)	Neutral	2
F5 Networks, Inc. (FFIV)	Neutral	3
Juniper Networks, Inc. (JNPR)	Neutral	3
NetScout Systems, Inc. (NTCT)	Neutral	3
Palo Alto Networks, Inc. (PANW)	Neutral	3
TiVo Corporation (TIVO)	Neutral	3
VMware, Inc. (VMW)	Underperform	4

Industry Comparison Industry: Internet - Services				Industry Peers		
	AKAM	X Industry	S&P 500	CSCO	JNPR	VMW
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	4
VGM Score	A	-	-	B	C	D
Market Cap	15.84 B	636.16 M	20.82 B	183.80 B	7.64 B	56.42 B
# of Analysts	11	3	14	12	8	11
Dividend Yield	0.00%	0.00%	2.07%	3.32%	3.47%	0.00%
Value Score	C	-	-	B	C	D
Cash/Price	0.09	0.20	0.06	0.15	0.25	0.05
EV/EBITDA	15.76	2.71	12.12	9.88	11.79	23.27
PEG Ratio	1.34	2.38	2.51	2.62	1.76	1.37
Price/Book (P/B)	4.32	2.23	2.74	5.17	1.67	8.04
Price/Cash Flow (P/CF)	14.61	15.86	11.23	12.60	12.21	20.21
P/E (F1)	19.63	27.27	19.26	14.15	14.51	22.37
Price/Sales (P/S)	5.37	2.56	2.16	3.57	1.72	5.51
Earnings Yield	5.00%	1.11%	5.03%	7.06%	6.89%	4.47%
Debt/Equity	0.69	0.09	0.72	0.41	0.37	0.53
Cash Flow (\$/share)	6.70	0.12	7.01	3.44	1.89	6.68
Growth Score	B	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	10.95%	24.26%	10.88%	8.60%	-0.59%	14.59%
Proj. EPS Growth (F1/F0)	8.85%	1.25%	-6.94%	-1.18%	-7.56%	-3.29%
Curr. Cash Flow Growth	14.74%	9.86%	5.92%	6.95%	-8.77%	0.87%
Hist. Cash Flow Growth (3-5 yrs)	12.26%	20.51%	8.55%	3.53%	-15.41%	13.69%
Current Ratio	3.22	1.59	1.23	1.81	2.08	0.65
Debt/Capital	40.90%	9.66%	43.90%	28.97%	26.75%	34.84%
Net Margin	16.74%	-5.94%	11.15%	21.44%	7.53%	62.27%
Return on Equity	16.73%	-3.84%	16.47%	36.40%	8.83%	40.10%
Sales/Assets	0.47	0.63	0.54	0.55	0.50	0.49
Proj. Sales Growth (F1/F0)	7.01%	1.60%	-1.52%	-5.81%	-3.28%	12.37%
Momentum Score	A	-	-	B	A	A
Daily Price Chg	-3.98%	1.59%	2.91%	2.00%	-3.63%	4.12%
1 Week Price Chg	-2.44%	0.00%	-1.74%	0.09%	3.19%	-6.09%
4 Week Price Chg	6.84%	12.87%	21.33%	13.07%	20.03%	16.35%
12 Week Price Chg	2.00%	-10.28%	-16.28%	-10.55%	-1.20%	-10.95%
52 Week Price Chg	20.77%	-26.34%	-7.57%	-22.02%	-16.99%	-33.34%
20 Day Average Volume	2,539,605	170,883	2,658,107	21,775,702	3,846,171	1,345,954
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.11%	-0.06%	-6.32%	-2.92%	0.00%	-5.38%
(F1) EPS Est 12 week change	4.07%	-18.95%	-12.93%	-6.19%	-11.61%	-28.23%
(Q1) EPS Est Mthly Chg	-0.14%	0.00%	-11.84%	-5.31%	0.00%	-2.57%

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	C
Growth Score	B
Momentum Score	A
VGM Score	A

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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