

Akamai Technologies (AKAM)

\$110.50 (As of 07/30/20)

Price Target (6-12 Months): **\$116.00**

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:B

Value: C

Growth: A

Momentum: B

Summary

Akamai reported impressive second-quarter 2020 results. Both earnings and revenues increased on a year-over-year basis. The solid growth can be attributed to strong demand for Cloud Security Solutions, high traffic levels as more enterprises moved their operations online due to the coronavirus outbreak and operational efficiency. Growing adoption of Bot Manager service, Secure Web Gateway, Page Integrity Manager and Enterprise Defender are expected to drive top-line growth in the rest of 2020. Akamai reinstated 2020 guidance and expects security business to contribute more than \$1 billion. Notably, Akamai shares have outperformed the industry year to date. However, third-quarter revenues are expected to decline sequentially, primarily due to negative impact from ban on 59 Chinese apps in India and moderation in summer traffic.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$116.39 - \$75.18
20 Day Average Volume (sh)	1,577,586
Market Cap	\$17.9 B
YTD Price Change	27.9%
Beta	0.34
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Services
Zacks Industry Rank	Top 44% (111 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	13.1%
Last Sales Surprise	3.4%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	10/26/2020
Earnings ESP	1.1%
P/E TTM	22.5
P/E F1	22.3
PEG F1	1.8
P/S TTM	5.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	819 E	832 E	832 E	880 E	3,354 E
2020	764 A	795 A	775 E	822 E	3,158 E
2019	707 A	705 A	710 A	772 A	2,894 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.31 E	\$1.30 E	\$1.29 E	\$1.45 E	\$5.36 E
2020	\$1.20 A	\$1.38 A	\$1.21 E	\$1.34 E	\$4.96 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 07/30/2020. The reports text is as of 07/31/2020.

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 250,000 servers located in over 1,500 networks around the world.

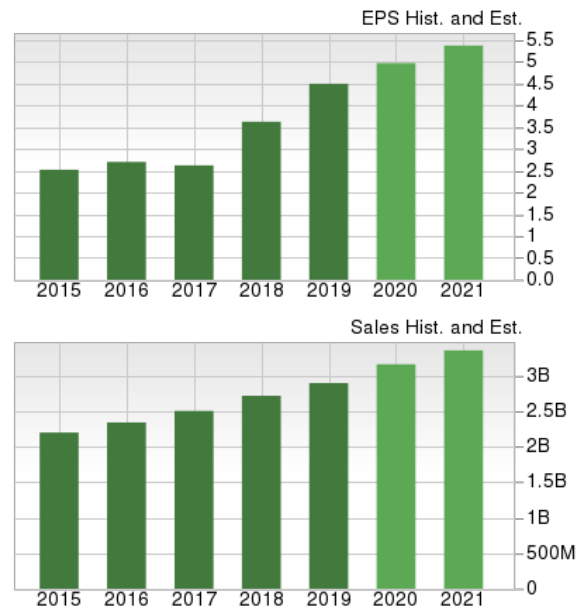
Akamai reported revenues of \$2.894 billion in 2019.

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.
- ▲ 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 Report Linker, global mobile data traffic is expected to witness a compounded annual growth rate (CAGR) of 25.7% between 2020 and 2027, reaching 171.3 terabytes per month by 2027. 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.
- ▲ Moreover, efforts to reward shareholders through share buybacks deserve a special mention. In the second quarter, Akamai repurchased around 0.3 million shares for \$27 million. The company has approximately \$658 million remaining in its previously-announced share repurchase authorization. Moreover, Akamai generated cash flow from operations of \$298.7 million, up 33.8% sequentially. The strong cash flow generation reflects that the company is making investments in the right direction and is expected to help it sustain share repurchases and other growth investments, at least in the near term..

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. Moreover, Amazon's entry into the digital audio, video streaming and cloud computing lines of business is an added risk. Furthermore, Akamai has traditionally charged a higher premium compared to what its competitors like Limelight, EdgeCast (acquired by Verizon) and Level3 (acquired by CenturyLink) charge for content delivery. However, the company is becoming more aggressive in terms of pricing, especially in case of video content, to attract more customers and traffic to its network. We believe this aggressive pricing will hurt profitability in the quarters ahead.
- ▼ Akamai's business is also being hurt by the Do it yourself (DIY) initiatives of some key clients in the CDN space. Notably, some big players like Netflix and Apple have developed their own CDN. This allows companies to reduce their dependence on providers like Akamai. Loss of similar large customers is expected to have a negative impact on the company's top line.
- ▼ 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. This is expected to hurt margins at least in the near term.
- ▼ Akamai also has a leveraged balance sheet, which adds to the risk of investing in the company. As of Jun 30, 2020, the company's net debt was \$1.31 billion compared with \$1.42 billion as of Mar 31, 2020. Moreover, total debt to total capital of 40.7%. Further, times interest earned is 10.3X, compared with the industry's figure of 111X. Although the company generates significant cash flow, the high debt level can not only jeopardize its ability to sustain share buyback but also pursue growth initiatives including accretive acquisitions..

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

Last Earnings Report

Akamai Technologies Q2 Earnings Beat, Revenues Up Y/Y

Akamai reported second-quarter 2020 adjusted earnings of \$1.38 per share that beat the Zacks Consensus Estimate by 13.1%. The figure surged 29% year over year (up 30% after adjusting for forex).

The year-over-year growth in earnings can be attributed to robust increase in revenues driven by strong demand for Cloud Security Solutions, high traffic levels as more enterprises moved their operations online due to the coronavirus outbreak and operational efficiency.

Notably, peak traffic on the Akamai platform exceeded 100 terabits per second on a daily basis in the second quarter.

Revenues of \$794.7 million outpaced the Zacks Consensus Estimate by 3.4% and improved 12.7% year over year (up 14% after adjusting for forex).

Excluding Internet Platform Customers, revenues rose 12.9% year over year (up 14% after adjusting for forex) to \$744 million. Revenues from Internet Platform Customers were \$50.8 million, up 9.7% year over year.

U.S. revenues were \$443.7 million, up 6.4% year over year. International revenues were \$351 million, up 21.8% year over year (up 24% after adjusting for forex) primarily on account of robust performance in Asia Pacific and Latin America.

Quarter Details

Cloud Security Solutions revenues were \$259.3 million, up 26.6% year over year (up 28% after adjusting for forex).

Akamai blocked more than 53 billion credential abuse attempts in the quarter under review, more than four times the number witnessed in the year-ago quarter. The rapid growth in attacks has helped in driving adoption of Bot Manager service which is currently used by more than 600 of the world's major enterprises.

Moreover, in second quarter, Akamai released Page Integrity Manager. The purpose of the solution is to protect websites and end users from malware-infected content that resides on third-party sites.

Revenues from CDN and other solutions of \$535.4 million increased 7% on a year-over-year basis.

Web Division revenues increased 7.1% year over year (up 8% after adjusting for forex) to \$404.3 million, owing to strong growth in the security business.

Media and Carrier Division revenues of \$390.4 million rose 19.2% (up 20% after adjusting for forex) year over year. Akamai currently supports more than 220 of the world's largest OTT and broadcasting companies, as well as with 24 of the world's 25 most popular video game publishers.

Non-GAAP cash gross margin contracted 90 basis points (bps) on a year-over-year basis to 76.6%.

Adjusted EBITDA margin of 44.7% expanded 320 bps on a year-over-year basis.

Cash operating expenses as a percentage of revenues contracted 410 bps from the year-ago quarter to 31.9%.

Non-GAAP operating margin expanded 350 bps on a year-over-year basis to 32.5% higher than management's expectation of 30%.

Balance Sheet & Cash Flow

As of Jun 30, Akamai's cash and cash equivalents (and total marketable securities) were \$1.37 billion, compared with \$1.25 billion as of Mar 31, 2020.

Akamai had total debt of \$2.69 billion as of Jun 30.

The company generated cash flow from operations of \$298.7 million, up 33.8% sequentially but down 6.1% year over year.

In the reported quarter, Akamai repurchased 0.3 million shares for \$27 million. The company has approximately \$658 million remaining in its previously-announced share repurchase authorization.

Guidance

For third-quarter 2020, Akamai expects revenues between \$760 million and \$785 million, suggesting 7-11% growth after adjusting for forex.

Revenues are expected to decline sequentially due to a \$15-million negative impact from ban on 59 Chinese apps in India (Akamai delivers traffic for roughly 30 of those), moderation in summer traffic and decline in revenues from Internet customers. Notably, forex is expected to have a \$6-million positive impact on a sequential basis.

Cash gross margin is expected to be approximately 76% in the third quarter. Non-GAAP operating expenses are projected between \$249 million and \$260 million, suggesting a slight improvement on a sequential basis. EBITDA margin is expected to be roughly 43%.

Akamai expects non-GAAP operating margin of roughly 30% for the third quarter.

Quarter Ending 06/2020

Report Date	Jul 28, 2020
Sales Surprise	3.43%
EPS Surprise	13.11%
Quarterly EPS	1.38
Annual EPS (TTM)	4.91

Non-GAAP earnings are envisioned in the range of \$1.20-\$1.24 per share, indicating 8-12% growth after adjusting for forex.

Akamai reinstated 2020 guidance. The company currently expects revenues between \$3.125 billion and \$3.175 billion. Security business is expected to contribute more than \$1 billion.

Adjusted EBITDA margin is expected to be roughly 43%. Non-GAAP operating margin is expected between 30% and 31%.

Non-GAAP earnings are expected between \$5.02 and \$5.12 per share, indicating year-over-year growth of 12-14%.

Recent News

On May 26, Akamai rolled out a new threat detection solution — Page Integrity Manager — to prevent data breaches amid the growing cyber security attacks and enhance user experience.

On Feb 27, 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, 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."

Valuation

Akamai shares are up 29.1% in the year-to-date period and 23.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 16.8% and 16.5% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 23.5% and 27.8%, respectively.

The S&P 500 index is up 1% in the year-to-date period and 10.4% in the past year.

The stock is currently trading at 21.31X forward 12-month earnings compared with 32.98X for the Zacks sub-industry, 26.01X for the Zacks sector and 22.69X 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 five-year median of 24.89X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$116 price target reflects 22.38X 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	21.31	32.98	26.01	22.69
	5-Year High	36.43	43.43	26.01	22.69
	5-Year Low	17.93	22.25	16.72	15.25
	5-Year Median	24.89	34.24	19.32	17.52
EV/Sales TTM	Current	5.67	6.90	4.63	3.18
	5-Year High	6.23	13.54	4.63	3.45
	5-Year Low	2.77	4.43	2.59	2.14
	5-Year Median	4.26	9.49	3.65	2.84
EV/EBITDA TTM	Current	14.92	21.84	13.21	12.11
	5-Year High	16.18	36.93	13.33	12.85
	5-Year Low	7.54	10.27	7.59	8.25
	5-Year Median	11.62	21.58	10.88	10.89

As of 07/30/2020

Industry Analysis Zacks Industry Rank: Top 44% (111 out of 253)



Top Peers

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

Industry Comparison Industry: Internet - Services				Industry Peers		
	AKAM	X Industry	S&P 500	CSCO	FSLY	JNPR
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	2	3
VGM Score	B	-	-	B	D	B
Market Cap	17.93 B	676.64 M	22.57 B	196.08 B	9.45 B	8.26 B
# of Analysts	11	3	14	12	8	8
Dividend Yield	0.00%	0.00%	1.83%	3.10%	0.00%	3.21%
Value Score	C	-	-	B	F	B
Cash/Price	0.07	0.17	0.07	0.15	NA	0.24
EV/EBITDA	18.00	1.93	12.96	10.34	NA	12.90
PEG Ratio	1.83	2.49	3.04	2.73	NA	2.04
Price/Book (P/B)	4.59	3.27	3.13	5.49	NA	1.85
Price/Cash Flow (P/CF)	16.49	18.79	12.61	13.50	NA	13.19
P/E (F1)	22.56	33.16	22.06	14.75	NA	16.33
Price/Sales (P/S)	5.90	2.38	2.42	3.88	43.39	1.87
Earnings Yield	4.49%	0.73%	4.31%	6.78%	-0.14%	6.14%
Debt/Equity	0.65	0.10	0.75	0.32	NA	0.39
Cash Flow (\$/share)	6.70	0.09	6.94	3.44	NA	1.89
Growth Score	A	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	13.19%	18.24%	10.85%	9.03%	NA	-4.16%
Proj. EPS Growth (F1/F0)	10.49%	-12.02%	-7.75%	1.56%	75.48%	-11.26%
Curr. Cash Flow Growth	14.74%	-3.00%	5.39%	6.95%	NA	-8.77%
Hist. Cash Flow Growth (3-5 yrs)	12.26%	19.91%	8.55%	3.53%	NA	-15.41%
Current Ratio	3.34	1.68	1.31	1.59	NA	1.88
Debt/Capital	39.48%	11.93%	44.32%	24.49%	NA	27.81%
Net Margin	17.82%	-7.95%	10.44%	21.32%	NA	7.89%
Return on Equity	17.37%	-6.23%	14.73%	36.47%	NA	8.71%
Sales/Assets	0.44	0.61	0.52	0.54	NA	0.51
Proj. Sales Growth (F1/F0)	8.38%	0.00%	-1.95%	-5.13%	43.93%	-2.73%
Momentum Score	B	-	-	F	D	C
Daily Price Chg	-0.16%	0.00%	-0.92%	-0.58%	8.97%	-0.24%
1 Week Price Chg	-0.81%	-0.57%	0.37%	-0.75%	1.03%	2.99%
4 Week Price Chg	-2.32%	2.20%	4.14%	1.78%	9.53%	10.60%
12 Week Price Chg	9.84%	15.17%	12.21%	12.26%	175.64%	7.83%
52 Week Price Chg	22.63%	-2.26%	-1.73%	-16.16%	373.94%	-6.21%
20 Day Average Volume	1,577,586	131,862	1,887,986	16,785,004	9,097,514	2,887,046
(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%	0.38%	0.00%	2.28%	0.00%
(F1) EPS Est 12 week change	0.00%	0.00%	-0.07%	4.19%	41.41%	0.36%
(Q1) EPS Est Mthly Chg	0.16%	0.00%	0.16%	0.00%	1.72%	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	C
Growth Score	A
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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