

Akamai Technologies, Inc.

NASDAQ:AKAM

Analyst: Nicholas Luca

Sector: Technology

BUY

Price Target: \$89.51

Key Statistics as of 5/2/2015

Market Price:	\$74.25
Industry:	Internet Information Providers
Market Cap:	\$13.37B
52-Week Range:	\$51.10 - 77.31
Beta:	1.66

Thesis Points:

- Higher than expected increase in demand for internet security
- Market leader in an industry expected to grow significantly
- The demand for network trafficking quality is to increase, as the number of mobile devices is increasing rapidly.

Company Description:

Akamai Technologies, Inc. provides cloud services for delivering, optimizing, and securing online content and business applications in the United States and internationally. The company offers media content delivery solutions to execute digital media distribution strategies, including download delivery solutions for the distribution of file downloads, such as games, progressive video and audio files, documents, and other file-based content; and adaptive delivery solutions for streaming video content in various bitrate streaming formats; content preparation and packaging for multiple platforms, a customizable media player, and content protection technologies; a suite of analytics tools to monitor online video viewer experiences and the effectiveness of Web software downloads, while measuring audience engagement, and quality of service performance; and NetStorage, a cloud storage solution. It also provides application delivery and cloud performance solutions to enhance the operation of applications used by enterprises to connect with their customers, partners, employees, and suppliers; and Web performance solutions to accelerate business-to-consumer Websites that integrate collaborative content and applications into their online architecture. In addition, the company offers cloud security solutions, which helps customers avoid data theft and downtime, and protect Internet-facing infrastructure; and cloud networking solutions to help customers enhance enterprise branch office and retail store productivity and revenue by accelerating applications, reducing bandwidth costs, and extending the Internet and public clouds into private wide area networks. Further, it provides network operator solutions; and professional services and solutions. The company markets and sells its services and solutions through direct sales and service organization; and through active channel partners. Akamai Technologies, Inc. was founded in 1998 and is headquartered in Cambridge, Massachusetts.



Recommendation

Akamai Technologies Inc. is a BUY as of May 2nd, 2015 due to the increasing demand for their services, a growing cloud-based network globally, and their position of market leader in a sector that will be growing faster than expected. Mobile networking, from the increasing numbers of mobile devices to laptops/PCs, is becoming more and more congested. Users are now accessing the internet on multiple devices, while more and more users are entering the mobile network with the purchase of a smartphone, tablet, or laptop/PC. Due to the number of people using the internet, there is congestion and ultimately leads to slower service. AKAM recognizes this issue and continues to develop faster, more reliable, safe network trafficking. AKAM also provides the safest internet security, tackling a growing issue with Ecommerce sites, and other sites that demand secure delivery of content/information. AKAM is the largest provider of these services, and will continue to increase revenues, as the demand for their services increases, of which it will much faster than the market is expecting

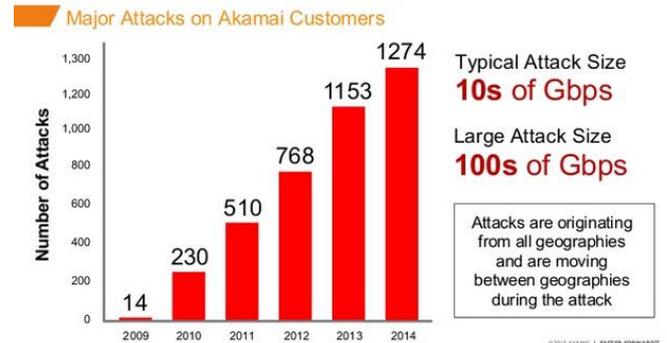
Increased Demand for Cyber Security

By 2017 the demand for cyber security is expected to be \$120 billion, a number that is almost twice the amount that was reported in 2011 (\$63.7 billion). The number is expected to skyrocket due to the number of users and increase in cyber traffic, permitting cyber-attacks to be much easier to commit. In real simple comparison, think if an individual was to commit a crime in a small rural town, where it is tough to blend in after the crime, as compared to committing the same crime in a city such as New York City, and had to blend in with millions of people. The criminal is much easier to blend in as the congestion and number of people increases; the same case for cyber networking.

Cyber security is crucial to ecommerce sites, as they need to keep customer information as secure as possible. The attack on major companies has been much worse recently, with companies as big as Apple making the news for the



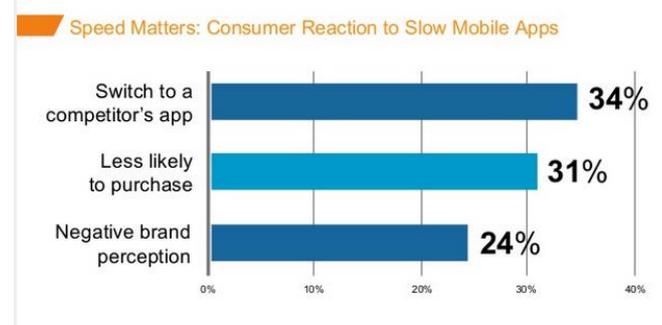
loss of consumer information to hackers. The increasing risk, along with the increasing number of lawsuits arising, creates this superior demand for internet safety.



The Demand for Fast, High Quality Streaming; Only Supplier to be able to Meet Demand

Online companies not only want secure trafficking on their site, but they need fast, reliable streaming. This is also becoming an issue, once again due to the increase in users, and also due to the increasing size of files/data on the Web. Regarding the cyber space, the more quality a person may want, whether it's an image, video, etc., the bigger the file is. With capacity shrinking, the speed of the trafficking is declining, and Akamai recognizes that.

Akamai's customers need fast speeds, as sales and general traffic on their site decreases severely as users become stressed and fed up with slow speeds. These sites are realizing the loss on product sales and brand loyalty with their poor performing apps/sites, and Akamai seeks to continue to tackle this issue. Their unique algorithms and optimization tactics are what make them the market leader. Their team constantly develops new optimizing algorithms that permit the speed to meet customers' growing expectation.



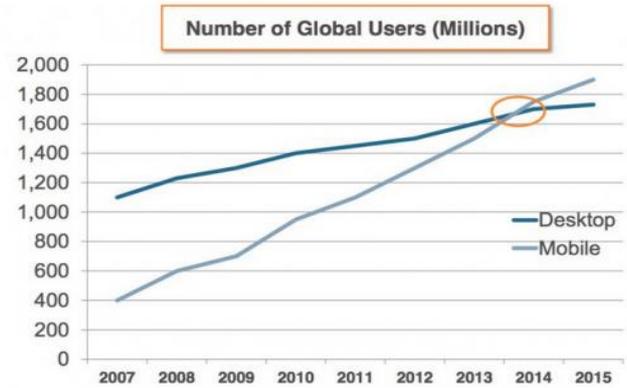
Currently, Akamai is the market leader by far, with being a trusted supplier to:

- The top 30 media & entertainment companies
- All 20 top global eCommerce sites
- 97 of the top 100 online U.S. retailers (Source: Internet Retailer Magazine)
- All branches of the U.S. military

They are going to continue to be the leader due to a few key factors. Their deep network connections are consistently growing. AKAM is developing relationships and ultimately acquiring a lot of these other smaller technology companies. They are in a sense monopolizing as they acquire because they are buying storage, and faster networking spots. As the demand continues to increase, Akamai is expanding their storage and speeding up through more network hubs. Along with the increase in speed and storage, Akamai incorporates these smaller companies' ideas on optimization within their own unique product. The other factor worth discussing is their hardware development. Their hardware is second to none, and of course all patented. The hardware they've come with allows for the most bandwidth to be met, and prioritizes traffic and maps routes, all of which ultimately leads to faster speeds.

Mobile Device Growth

This increase in cyber traffic is due mainly to increased number of network-connected devices, of which leads to more data being transferred through cyber space. Currently, there is a lot of speculation in the market as to when will there be too much traffic that speeds will start to slow dramatically. This issue will be resolved by Akamai, as they have been dealing with the growth of cyber space demand heavily in recent years. As seen below, Desktop PCs have been at almost constant growth over past 7-8 years, growing steadily around 100 million users per year. The mobile users increase is much more significant, growing over twice as fast as desktop users, and even recently surpassed total number of users.



The delivery of data is crucial, and only going to become more significant in the future, and growing much quicker than people within the industry have thought. Everything is moving to online: companies are closing physical storefronts and opening up web shops, the increase in social networking, and growth of mobile phones with network connectivity, etc. The demand will need to be met and the only company capable of doing it is Akamai. They currently have all the biggest customers, and essentially control the delivery of data through cyber space right now. This company is best suited to be the player that controls this increase in traffic, between management and the relationship they hold to almost every big name online company. They have been tackling these issues for over a decade and continue to research in problem management. Akamai will continue to be successful, as they acquire more competitors and continue research and implementation of their research.

CENTER FOR GLOBAL FINANCIAL STUDIES

AKAM		Analyst Nicholas Luca	Current Price \$74.66	Intrinsic Value \$77.04	Target Value \$89.51	Divident Yield 0%	Target Return 1-y Return: 19.89%	NEUTRAL				
General Info		Peers	Market Cap.	Professional	Title	Management						
Information Technology Internet Software and Services Apr-26-2015 7/29/2015		Rackspace Hosting, Inc. Limelight Networks, Inc. Red Hat, Inc. Equinix, Inc. Yahoo! Inc. LinkedIn Corporation Teradata Corporation Citrix Systems, Inc. Monster Worldwide, Inc. eBay Inc.	\$39,882.58 \$405.15 \$13,814.92 \$14,736.27 \$3.53 \$25,829.93 \$6,668.59 \$523.43 \$10,716.56 \$72,032.87	Leighton, F. Benson, James Hughes, Robert Haratunian, Melanie McConnell, Rick Kalia, Kumud	Co-Founder, Chief Executive Chief Financial Officer, Chi President of Worldwide Op Executive Vice President, I President of Products and Chief Information Officer ar	Comp. FY2012 20,000.00 2,077,741.00 4,866,055.00 1,433,780.00 1,588,857.00 -	Comp. FY2013 7,631,580.00 2,442,661.00 4,261,588.00 1,795,943.00 4,271,597.00 -	Comp. FY2014 7,499,989.00 2,964,134.00 4,399,655.00 2,346,930.00 4,399,181.00 -				
Market Data		Current Capital Structure			10y-Median Performance							
\$13,260.50 \$224,790.42 7.72 179.00 180.88 77.53% 2.80% 2.68% 2.84 \$77.31 \$51.10 1.01 22.71%	Total debt/market cap Cost of Borrowing Interest Coverage Altman Z Debt Rating Levered Beta WACC (based on market value wei	4.56% 0.00% AAA 0.96 8.33%	Growth ROIC NOPLAT Margin REV./Invested Capital Excess Cash/Rev. Total Cash /Rev. Unlevered Beta TEV/REV TEV/EBITA PE P/BV		AKAM 19.1% 17.7% 23.5% 75.3% 59.3% 59.3% 0.96 5.3x 14.7x 25.0x 2.9x		Peers 11.0% 7.1% 16.1% 44.1% 46.6% 51.1% 1.30 4.7x 29.0x 23.4x 2.2x		Industry 13.8% 15.1% 10.7% 140.8% 13.5% 12.3% 1.12 3.9x 17.5x 33.3x 2.5x		All U.S. firms 7.4% 14.3% 10.4% 137.4% 12.9% 15.2% 0.95 2.5x 13.1x 23.5x 2.2x	
Past Earning Surprises		Non-GAAP Adjustments in estimates computations										
Revenue 0.1% 1.9% 1.5% 0.7% 2.8%	EBITDA 1.4% 3.9% 4.3% 0.0% 0.0%	Norm. EPS 0.0% 11.1% 8.8% 5.5% 9.4%	Operating Leases Capitalizati R&D Exp. Capitalization Expl./Drilling Exp. Capitalizati SG&A Capitalization		100% 100% 0% 0%		Straightline Straightline N/A N/A		10 years 10 years N/A N/A			
Proforma Assumptions		Forecast										
Rev. Growth 0.59% 0.1% 1.2 37.5% 2.5% 75.39 2% NPPE Growth=0 (GPPE grows by DPR exp. each year) 9.0% 40.0% 23.5% 11.6% 0.99 1.12		LTM NTM NTM+1 NTM+2 NTM+3 NTM+4 NTM+5 NTM+6 NTM+7 NTM+8	24.5% 20.0% 27.0% 28.0% 18.0% 17.0% 16.0% 15.0% 14.0% 13.0%	Adj. Op. Cost/Rev 59.3% 59.7% 59.8% 59.9% 60.0% 60.0% 60.0% 60.0% 60.0% 60.0%	Invested Capital \$2,781.33 \$3,085.08 \$3,220.63 \$3,329.47 \$3,415.18 \$3,481.24 \$3,460.88 \$3,597.52 \$3,743.64 \$3,897.73	NOPLAT Margin 22% 27% 27% 27% 28% 28% 28% 28% 28% 28%	ROIC 15.2% 24.1% 28.1% 34.0% 39.0% 44.6% 50.7% 58.8% 64.6% 70.2%	WACC 8.3% 8.3% 8.5% 8.8% 9.0% 9.2% 9.5% 9.7% 9.9% 10.1%				
Valuation		Monte Carlo Simulation Assumptions			Monte Carlo Simulation Results							
Invested Capital x (ROIC-WACC) \$190.66 \$485.59 \$628.14 \$839.42 \$1,023.38 \$1,229.90 \$1,428.36 \$1,767.88 \$2,048.18 \$202,627.55	prise Value (UFCF Valuation) \$10,485.47 \$11,219.54 \$12,187.40 \$13,943.08 \$16,956.68 \$22,425.53 \$32,823.46 \$54,468.82 \$102,137.35 \$216,679.48	Total Debt \$609.65 \$1,023.59 \$1,023.59 \$1,023.59 \$1,023.59 \$1,023.59 \$1,023.59 \$1,023.59 \$1,023.59 \$1,023.59	Other claims -\$1,269.18 -\$428.85 -\$940.58 -\$1,667.59 -\$2,713.53 -\$3,851.52 -\$5,291.42 -\$6,811.41 -\$8,579.08 -\$10,614.32	Equity Value \$11,145.01 \$10,624.81 \$12,104.39 \$14,587.07 \$18,646.62 \$25,253.46 \$37,091.28 \$60,256.64 \$109,692.84 \$226,270.21	UDCF Valuation \$80.56 \$91.46 \$100.56 \$111.46 \$107.31 \$147.08 \$217.85 \$359.33 \$666.34 \$1,264.08	Relative Valuation \$70.32 \$86.67 \$96.67 \$98.67 \$100.67 \$100.99 \$122.26 \$144.91 \$169.92 \$197.24	Weighted Price Per S \$78.00 \$90.26 \$99.59 \$108.26 \$105.65 \$135.56 \$193.95 \$305.72 \$542.23 \$997.37					
Base 0 0 6% 9%	Stdev 10% 10% N/A N/A	Min N/A N/A 5% 3%	Max N/A N/A 7% 19%	Distribution Normal Normal Triangular Triangular	Mean est. \$78.00 3 σ(e) adjusted price \$0.32 Current Price \$74.66 Analysts' median est.		1y-Target \$90.26 \$0.25 \$89.51 \$74.25					