Akamai (AKAM-US): $101.1   <u>Rating: Neutral</u>

Market Cap: $15.3 B   Short Interest: 5.4%

Enterprise Value: $18.1 B   12-month perf (%): -2.7%

EV/EBITDA: 14x   30-Day Average Daily Volume: 2mm

P/E: 25x   Date: 11/1/2024

Company Background

We were initially excited to research Akamai due to its strong positioning at the nexus of several, tech-driven trends we have been studying: edge computing, cybersecurity, cloud services, IoT/5G, and AI. Over the years, Akamai has transitioned from a leading content delivery provider ("CDN") to an integrated player offering content delivery, advanced cybersecurity, and edge compute services. While Akamai's strategic moves and broad technological reach make it intriguing, we find the company's reliance on heavy capital expenditures and acquisitions make it difficult to determine whether its growth strategy will be meaningfully value-enhancing.

Akamai's early breakthroughs in content delivery laid the foundation for modern internet infrastructure, helping to scale the web "to infinity" with sophisticated algorithms. Over time, Akamai evolved from a pure CDN provider to a leader in dynamic content delivery, enterprise-grade security, and, more recently, edge computing.

Challenges/Risks (Or Opportunities for A "Buy" Piece

- Akamai's traditional CDN business faces significant challenges due to changing market dynamics driven by hyperscalers.
- Akamai's expansion into compute has brought with it increased operational costs, acquisitions and capital investments
- The cybersecurity sector is fast-moving and marked by constant evolution in threat types and technology.

Conclusion

Akamai has the potential to develop a next-generation edge computing network that could outcompete hyperscalers at the edge, particularly in latency-sensitive industries. However, the substantial capital expenditures and the strategic complexity involved make this a high-risk endeavor. We would need clearer evidence of successful scaling in its compute initiatives before considering a position.

There remain key unanswered questions: Has the CDN business stabilized enough to ensure steady growth? Will Akamai's compute services scale effectively and contribute meaningful value? What will be the cadence and financial impact of future acquisitions to support cybersecurity and compute? Despite thorough analysis, we find it challenging to gain conviction around these aspects of Akamai's future.