

## Akamai

## Softness on the surface due to delivery nuances, but strength underneath

Reiterate Rating: BUY | PO: 145.00 USD | Price: 125.05 USD

## Muted quarter, but plenty to be positive about in CY24

Akamai reported mixed 4Q results, with revenue growth of +7% slightly below Street's +8%, and EPS of \$1.69 topping consensus' \$1.60. Topline weakness is attributed to Delivery, which declined -6% YoY on weak video and connected device trends. Positively, compute and security grew 20%/18%, with compute outperforming Street estimates by +300bps. While guidance of +7% revenue growth came in light versus Street's +8%, we instead focus on compute/security guidance of 20%/15% growth. We remain positive on strong demand trends, the revenue mix shift to faster growing products, and attractive cross-sell opportunities. We reiterate our Buy and \$145 PO based on 22x CY24E P/E.

## What we like: new product success, CY24 opportunities

Positively, Akamai's growth engines are firing on all cylinders. Security growth of 18% was supported by Guardicore growth of 63% and web security growth of >20%, and compute growth of 20% was driven by wins across social media and software companies. We also highlight areas for potential upside to CY24 guidance including new compensation initiatives that will require sales reps to sell both security and compute products, and Akamai's new Gecko initiative, which will move core compute to the edge, which could start to contribute to revenues by 2H24.

## What we don't: weak delivery trends expected to continue

CY24 guidance implies continued deceleration of Delivery growth to -6% YoY, -400bps below the company's 2025 target of -2% due to multiple short-term headwinds: the upcoming renewal of seven top ten Delivery customers which creates a cyclical revenue headwind in 1H2, exiting of non-profitable and lower quality contracts, and pricing changes which could lead customers to transition high-cost traffic off of Akamai.

## Important to look at the forest through the trees

In our view, the important part of the Akamai story is the 60% of revenues comprised of Compute and Security, the focus of the company, that are growing at a combined 16% YoY, despite Delivery declining -6%. While we expect short term volatility related to legacy Delivery business, in a few quarters Delivery will matter less as the majority of revenues shift to growth areas. As these growth areas continue to show progress, we think Akamai's valuation could benefit in 2024 from higher estimates and multiple expansion.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.37	6.20	6.81	7.29	7.52
GAAP EPS	5.51	5.39	6.52	7.35	8.40
EPS Change (YoY)	-6.4%	15.5%	9.8%	7.0%	3.2%
Consensus EPS (Bloomberg)			6.77	7.63	8.73
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	23.3x	20.2x	18.4x	17.2x	16.6x
GAAP P/E	22.7x	23.2x	19.2x	17.0x	14.9x
EV / EBITDA*	14.5x	13.8x	12.7x	11.6x	10.5x
Free Cash Flow Yield*	4.3%	3.3%	5.9%	5.6%	4.9%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

14 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	4,143.7	4,086.5
2025E Rev (m)	4,591.1	4,503.3
2026E Rev (m)	NA	4,994.8
2024E EPS	6.38	6.81
2025E EPS	6.74	7.29
2026E EPS	NA	7.52

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## Stock Data

Price	125.05 USD
Price Objective	145.00 USD
Date Established	7-Sep-2023
Investment Opinion	B-1-9
52-Week Range	70.65 USD - 129.17 USD
Mrkt Val (mn) / Shares Out (mn)	18,861 USD / 150.8
Free Float	98.2%
Average Daily Value (mn)	175.64 USD
BofA Ticker / Exchange	AKAM / NAS
Bloomberg / Reuters	AKAM US / AKAM.OQ
ROE (2024E)	20.4%
Net Dbt to Eqty (Dec-2023A)	-0.1%
ESGMeter <sup>TM</sup>	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

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# iQprofile<sup>SM</sup> Akamai

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.8%	12.2%	11.7%	11.6%	11.8%
Return on Equity	19.9%	21.4%	20.4%	17.9%	16.4%
Operating Margin	28.6%	29.8%	30.1%	30.6%	30.7%
Free Cash Flow	816	618	1,119	1,051	926

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.4x	1.6x	1.5x	1.3x
Asset Replacement Ratio	0.9x	1.5x	1.2x	1.3x	1.3x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	-1.1%	-0.1%	-20.1%	-30.0%	-34.9%
Interest Cover	NM	NM	44.6x	50.1x	NM

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	3,617	3,812	4,087	4,503	4,995
% Change	4.5%	5.4%	7.2%	10.2%	10.9%
Gross Profit	2,717	2,784	2,990	3,301	3,666
% Change	2.9%	2.5%	7.4%	10.4%	11.0%
EBITDA	1,529	1,607	1,750	1,916	2,114
% Change	-2.0%	5.1%	8.9%	9.5%	10.3%
Net Interest & Other Income	(6)	19	31	19	72
<b>Net Income (Adjusted)</b>	<b>883</b>	<b>960</b>	<b>1,049</b>	<b>1,122</b>	<b>1,244</b>
<b>% Change</b>	<b>-6.4%</b>	<b>8.8%</b>	<b>9.3%</b>	<b>7.0%</b>	<b>10.9%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,197	1,349	1,469	1,616	1,848
Depreciation & Amortization	496	472	522	536	579
Change in Working Capital	(5)	(131)	68	(97)	(371)
Deferred Taxation Charge	(105)	(23)	0	0	0
Other Adjustments, Net	(308)	(318)	(338)	(328)	(401)
Capital Expenditure	(458)	(730)	(603)	(675)	(729)
<b>Free Cash Flow</b>	<b>816</b>	<b>618</b>	<b>1,119</b>	<b>1,051</b>	<b>926</b>
<b>% Change</b>	<b>-5.0%</b>	<b>-24.3%</b>	<b>80.9%</b>	<b>-6.0%</b>	<b>-11.9%</b>
Share / Issue Repurchase	(608)	(654)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	542	489	1,609	2,661	3,587
Trade Receivables	679	724	678	725	803
Other Current Assets	748	591	588	579	601
Property, Plant & Equipment	1,540	1,826	1,843	1,921	2,023
Other Non-Current Assets	4,794	6,269	6,371	6,600	6,999
<b>Total Assets</b>	<b>8,303</b>	<b>9,900</b>	<b>11,090</b>	<b>12,486</b>	<b>14,013</b>
Short-Term Debt	472	460	447	570	658
Other Current Liabilities	347	376	510	554	589
Long-Term Debt	22	23	24	27	32
Other Non-Current Liabilities	3,102	4,444	4,444	4,444	4,444
<b>Total Liabilities</b>	<b>3,943</b>	<b>5,303</b>	<b>5,424</b>	<b>5,594</b>	<b>5,722</b>
<b>Total Equity</b>	<b>4,360</b>	<b>4,597</b>	<b>5,664</b>	<b>6,891</b>	<b>8,289</b>
<b>Total Equity &amp; Liabilities</b>	<b>8,303</b>	<b>9,900</b>	<b>11,089</b>	<b>12,485</b>	<b>14,012</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Data Networking

## Company Description

Akamai provides solutions across web delivery, web security, zero trust security, edge compute, and distributed compute. The company was founded in 1998 and has a customer base of 5,000, most of which are large enterprises. Akamai estimates its current TAM to be >\$100bn.

## Investment Rationale

We view Akamai as a solid competitor in the Edge Delivery Network space as well as the Distributed Compute space.

We believe the company will be able to leverage its existing network and Enterprise customer base to expand into new markets and product offerings. We also highlight Akamai's strong financial position, a testament to the sustainability of its business model.

## Stock Data

Average Daily Volume 1,404,586

## Quarterly Earnings Estimates

	2023	2024
Q1	1.40A	1.67E
Q2	1.49A	1.70E
Q3	1.63A	1.72E
Q4	1.69A	1.72E

# Financial Highlights

## Exhibit 1: Actual versus estimated results

Akamai reported mixed 4Q results

	4Q22	1Q23	2Q23	3Q23	4Q23	4Q23E	QoQ	YoY	Delta
<b>Total Revenues</b>	<b>927.8</b>	<b>915.7</b>	<b>935.7</b>	<b>965.5</b>	<b>995.0</b>	<b>1,008.9</b>	3.1%	7.2%	-13.9
QoQ	5.2%	-1.3%	2.2%	3.2%	3.1%	4.5%			
YoY	2.5%	1.3%	3.6%	9.5%	7.2%	8.7%			
<b>Total Cost of Sales</b>	<b>236.1</b>	<b>249.2</b>	<b>254.9</b>	<b>257.6</b>	<b>266.7</b>	<b>261.8</b>	3.5%	13.0%	4.8
<b>Gross Profit</b>	<b>691.7</b>	<b>666.5</b>	<b>680.8</b>	<b>707.9</b>	<b>728.3</b>	<b>747.1</b>	2.9%	5.3%	-18.8
Sales and Marketing	83.6	70.0	66.8	72.6	72.5	79.2	-0.1%	-13.3%	-6.7
Research & Development	116.5	115.6	118.8	115.0	117.4	120.7	2.0%	0.8%	-3.4
General and Admin	110.2	105.5	107.1	102.7	112.4	108.4	9.5%	2.0%	4.0
<b>Total Operating Expenses</b>	<b>310.3</b>	<b>291.0</b>	<b>292.7</b>	<b>290.3</b>	<b>302.3</b>	<b>308.4</b>	4.1%	-2.6%	-6.1
<b>Operating Income</b>	<b>257.6</b>	<b>263.8</b>	<b>273.0</b>	<b>296.0</b>	<b>302.7</b>	<b>314.6</b>	2.3%	17.5%	-11.9
Interest income (expense)	5.02	5.29	4.51	11.41	23.98	19.17	110.1%	377.9%	
Other Income	-2.2	-1.7	-2.0	-3.0	-4.1	-4.1	nmf	nmf	0.0
<b>Pretax Income</b>	<b>259.7</b>	<b>265.0</b>	<b>274.3</b>	<b>299.1</b>	<b>315.9</b>	<b>325.6</b>	5.6%	21.6%	-9.7
Income Tax Expense	-43.2	-46.7	-46.3	-48.0	-53.2	-69.0	nmf	nmf	15.7
<b>Net Income</b>	<b>216.4</b>	<b>218.3</b>	<b>228.0</b>	<b>251.1</b>	<b>262.6</b>	<b>256.6</b>	4.6%	21.3%	6.0
<b>Proforma EPS</b>	<b>1.37</b>	<b>1.40</b>	<b>1.49</b>	<b>1.63</b>	<b>1.69</b>	<b>\$1.65</b>	4.0%	23.0%	0.04
Diluted Share count	157.5	156.1	153.5	154.4	155.3	155.8	0.5%	-1.4%	-0.5
Consolidated Gross Margin	74.6%	72.8%	72.8%	73.3%	73.2%	74.0%	-12 bps	-135 bps	-85 bps
Operating Margin	27.8%	28.8%	29.2%	30.7%	30.4%	31.2%	-23 bps	264 bps	-76 bps
Net Margin	23.3%	23.8%	24.4%	26.0%	26.4%	25.4%	38 bps	306 bps	95 bps

Source: BofA Global Research estimates, company report

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## Exhibit 2: Summary of model changes

We tweak our estimates to reflect updated guidance

	Revenue (\$mn)			Gross Margin			Operating Margin		
	Old	New	Delta	Old	New	Delta	Old	New	Delta
<b>FY23</b>			<b>\$0</b>						
1Q23E	\$916	\$916	\$0	72.8%	72.8%	0 bps	28.8%	28.8%	0 bps
2Q23E	\$936	\$936	\$0	72.8%	72.8%	0 bps	29.2%	29.2%	0 bps
3Q23E	\$965	\$965	\$0	73.3%	73.3%	0 bps	30.7%	30.7%	0 bps
4Q23E	\$1,009	\$995	(\$14)	74.0%	73.2%	-85 bps	31.2%	30.4%	-76 bps
<b>Total</b>	<b>\$3,826</b>	<b>\$3,812</b>	<b>(\$14)</b>	<b>73.2%</b>	<b>73.0%</b>	<b>-22 bps</b>	<b>30.0%</b>	<b>29.8%</b>	<b>-20 bps</b>
<b>FY24E</b>			<b>\$0</b>						
1Q24E	\$1,002	\$988	(\$14)	73.8%	74.1%	22 bps	30.2%	31.1%	83 bps
2Q24E	\$1,025	\$1,011	(\$14)	73.1%	73.3%	21 bps	29.1%	30.2%	105 bps
3Q24E	\$1,035	\$1,021	(\$14)	72.4%	72.6%	21 bps	27.7%	29.0%	131 bps
4Q24E	\$1,082	\$1,067	(\$15)	72.5%	72.7%	20 bps	28.5%	30.0%	145 bps
<b>Total</b>	<b>\$4,144</b>	<b>\$4,087</b>	<b>(\$57)</b>	<b>72.9%</b>	<b>73.2%</b>	<b>21 bps</b>	<b>28.9%</b>	<b>30.1%</b>	<b>117 bps</b>
<b>FY25E</b>			<b>\$0</b>						
1Q25E	\$1,076	\$1,061	(\$15)	73.1%	73.3%	20 bps	29.0%	30.5%	148 bps
2Q25E	\$1,125	\$1,104	(\$21)	72.9%	73.2%	25 bps	29.5%	30.9%	137 bps
3Q25E	\$1,156	\$1,135	(\$21)	73.2%	73.5%	24 bps	29.2%	30.6%	138 bps
4Q25E	\$1,234	\$1,203	(\$31)	72.9%	73.2%	30 bps	29.3%	30.6%	122 bps
<b>Total</b>	<b>\$4,591</b>	<b>\$4,503</b>	<b>(\$88)</b>	<b>73.0%</b>	<b>73.3%</b>	<b>25 bps</b>	<b>29.3%</b>	<b>30.6%</b>	<b>136 bps</b>

Source: BofA Global Research estimates, company report

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**Table 1: Income statement**  
Updated summary of key financials

Income statement in mn's	1Q23	2Q23	3Q23	4Q23	1Q24E	2Q24E	3Q24E	4Q24E	1Q25E	2Q25E	3Q25E	4Q25E	CY23	CY24E	CY25E
<b>Total revenue</b>	<b>915.698</b>	<b>935.721</b>	<b>965.484</b>	<b>995.017</b>	<b>988.052</b>	<b>1,010.777</b>	<b>1,020.885</b>	<b>1,066.825</b>	<b>1,061.491</b>	<b>1,103.950</b>	<b>1,134.861</b>	<b>1,202.952</b>	<b>3,811.920</b>	<b>4,086.538</b>	<b>4,503.254</b>
YoY%Chg	1.3%	3.6%	9.5%	7.2%	7.9%	8.0%	5.7%	7.2%	7.4%	9.2%	11.2%	12.8%	5.4%	7.2%	10.2%
<b>Total gross profit</b>	<b>666.535</b>	<b>680.781</b>	<b>707.899</b>	<b>728.318</b>	<b>731.802</b>	<b>740.775</b>	<b>740.892</b>	<b>776.113</b>	<b>778.270</b>	<b>807.751</b>	<b>833.732</b>	<b>881.053</b>	<b>2,783.533</b>	<b>2,989.581</b>	<b>3,300.805</b>
Gross margin	72.8%	72.8%	73.3%	73.2%	74.1%	73.3%	72.6%	72.7%	73.3%	73.2%	73.5%	73.2%	73.0%	73.2%	73.3%
Research & Development	70.019	66.783	72.576	72.523	72.482	76.090	78.715	80.172	81.657	82.026	87.331	96.860	281.901	307.459	347.874
Sales & Marketing	115.562	118.831	115.019	117.361	115.082	117.510	122.707	129.531	130.770	136.536	141.759	149.591	466.773	484.830	558.656
General & Administrative	105.467	107.116	102.704	112.447	110.759	110.592	111.705	114.359	115.477	115.828	120.210	127.253	427.734	447.415	478.768
<b>Operating Income / (Loss)</b>	<b>263.837</b>	<b>273.041</b>	<b>295.974</b>	<b>302.673</b>	<b>307.008</b>	<b>305.182</b>	<b>296.070</b>	<b>319.764</b>	<b>324.049</b>	<b>340.887</b>	<b>347.113</b>	<b>367.806</b>	<b>1,135.525</b>	<b>1,228.024</b>	<b>1,379.855</b>
Operating margin	28.8%	29.2%	30.7%	30.4%	31.1%	30.2%	29.0%	30.0%	30.5%	30.9%	30.6%	30.6%	29.8%	30.1%	30.6%
Interest income	5.292	4.509	11.412	23.981	19.761	20.216	30.627	10.668	5.307	11.040	17.023	36.089	45.194	81.271	69.458
Interest income (expense)	(2.681)	(3.157)	(4.987)	(6.884)	(6.884)	(6.884)	(6.884)	(6.884)	(6.884)	(6.884)	(6.884)	(6.884)	(17.709)	(27.536)	(27.536)
Other income	(1.439)	(0.059)	(3.342)	(3.901)	(5.642)	(5.642)	(5.642)	(5.642)	(5.642)	(5.642)	(5.642)	(5.642)	(8.741)	(22.568)	(22.568)
Tax (expense) benefit	(46.695)	(46.343)	(47.986)	(53.238)	(58.829)	(52.986)	(47.332)	(50.720)	(50.208)	(53.412)	(54.824)	(58.020)	(194.262)	(209.868)	(216.464)
<b>Net Income (non-GAAP)</b>	<b>218.314</b>	<b>227.991</b>	<b>251.071</b>	<b>262.631</b>	<b>255.414</b>	<b>259.885</b>	<b>266.839</b>	<b>267.186</b>	<b>266.622</b>	<b>285.988</b>	<b>296.786</b>	<b>333.349</b>	<b>1,348.531</b>	<b>1,469.060</b>	<b>1,615.674</b>
<b>Non-GAAP EPS</b>	<b>\$ 1.40</b>	<b>\$ 1.49</b>	<b>\$ 1.63</b>	<b>\$ 1.69</b>	<b>\$ 1.67</b>	<b>\$ 1.70</b>	<b>\$ 1.72</b>	<b>\$ 1.72</b>	<b>\$ 1.66</b>	<b>\$ 1.77</b>	<b>\$ 1.83</b>	<b>\$ 2.04</b>	<b>6.20</b>	<b>\$ 6.81</b>	<b>\$ 7.29</b>
<b>GAAP EPS</b>	<b>\$ 0.62</b>	<b>\$ 0.84</b>	<b>\$ 1.04</b>	<b>\$ 1.03</b>	<b>\$ 1.03</b>	<b>\$ 1.07</b>	<b>\$ 1.04</b>	<b>\$ 1.15</b>	<b>\$ 1.13</b>	<b>\$ 1.23</b>	<b>\$ 1.28</b>	<b>\$ 1.38</b>	<b>5.39</b>	<b>\$ 6.52</b>	<b>\$ 7.35</b>
Total share count	156.135	153.454	154.432	155.269	153.000	153.000	155.000	155.000	160.989	161.794	162.603	163.416	154.82	154.039	153.925
Net Cash from Operating Activities	<b>233.499</b>	<b>366.311</b>	<b>359.436</b>	<b>389.193</b>	<b>413.823</b>	<b>431.734</b>	<b>439.474</b>	<b>436.503</b>	<b>344.169</b>	<b>450.700</b>	<b>445.082</b>	<b>486.933</b>	<b>1,348.439</b>	<b>1,721.534</b>	<b>1,726.885</b>
Free cash flow	<b>11.254</b>	<b>190.022</b>	<b>161.817</b>	<b>255.306</b>	<b>265.615</b>	<b>280.117</b>	<b>291.446</b>	<b>281.813</b>	<b>179.638</b>	<b>285.108</b>	<b>286.202</b>	<b>300.476</b>	<b>618.399</b>	<b>1,118.991</b>	<b>1,051.423</b>
FCF Margin	1.2%	20.3%	16.8%	25.7%	26.9%	27.7%	28.5%	26.4%	16.9%	25.8%	25.2%	25.0%	16.2%	27.4%	23.3%
<b>Margin Analysis</b>															
Total Gross Margin	72.8%	72.8%	73.3%	73.2%	74.1%	73.3%	72.6%	72.7%	73.3%	73.2%	73.5%	73.2%	73.0%	73.2%	73.3%
Research & Development	7.7%	7.4%	8.0%	8.0%	8.0%	8.4%	8.7%	8.9%	9.0%	9.1%	9.7%	10.7%	31.2%	34.0%	38.5%
Sales & Marketing	12.8%	13.2%	12.7%	13.0%	12.7%	13.0%	13.6%	14.3%	14.5%	15.1%	15.7%	16.6%	51.7%	53.7%	61.8%
General & Administrative	11.7%	11.9%	11.4%	12.4%	12.3%	12.2%	12.4%	12.7%	12.8%	12.8%	13.3%	14.1%	47.3%	49.5%	53.0%
<b>Operating Margin</b>	<b>29.2%</b>	<b>30.2%</b>	<b>32.8%</b>	<b>33.5%</b>	<b>34.0%</b>	<b>33.8%</b>	<b>32.8%</b>	<b>35.4%</b>	<b>35.9%</b>	<b>37.7%</b>	<b>38.4%</b>	<b>40.7%</b>	<b>125.7%</b>	<b>135.9%</b>	<b>152.7%</b>
Tax rate (Non-GAAP)	-18%	-17%	-16%	-17%	-19%	-17%	-15%	-16%	-16%	-16%	-16%	-15%	-17%	-17%	-15%
Net Income	23.8%	24.4%	26.0%	26.4%	25.9%	25.7%	26.1%	25.0%	25.1%	25.9%	26.2%	27.7%	35.4%	35.9%	35.9%
<b>YoY Growth</b>															
Total Revenue	1.3%	3.6%	9.5%	7.2%	7.9%	8.0%	5.7%	7.2%	7.4%	9.2%	11.2%	12.8%	5.4%	7.2%	10.2%
Total Operating Expenses	-1.5%	0.1%	0.3%	-2.6%	2.5%	3.9%	7.9%	7.2%	9.9%	9.9%	11.6%	15.3%	-0.9%	5.4%	11.7%
Operating Income	-2.3%	4.0%	22.0%	17.5%	16.4%	11.8%	0.0%	5.6%	5.6%	11.7%	17.2%	15.0%	9.9%	8.1%	12.4%
Net Income	-2.9%	5.3%	25.5%	21.3%	17.0%	14.0%	6.3%	1.7%	4.4%	10.0%	11.2%	24.8%	12.7%	8.9%	10.0%
<b>QoQ Growth</b>															
Total revenue	-1.3%	2.2%	3.2%	3.1%	-0.7%	2.3%	1.0%	4.5%	-0.5%	4.0%	2.8%	6.0%	0.0%	0.0%	0.0%
Total Operating expenses	-6.2%	0.6%	-0.8%	4.1%	-1.3%	2.0%	2.9%	3.5%	1.2%	2.0%	4.5%	7.0%	0.0%	0.0%	0.0%
Operating Income	2.4%	3.5%	8.4%	2.3%	1.4%	-0.6%	-3.0%	8.0%	1.3%	5.2%	1.8%	6.0%	9.9%	8.1%	12.4%
Net Income	0.9%	4.4%	10.1%	4.6%	-2.7%	1.8%	2.7%	0.1%	-0.2%	7.3%	3.8%	12.3%	12.7%	8.9%	10.0%

Source: BofA Global Research estimates, company report

BofA GLOBAL RESEARCH



## Price objective basis & risk

### Akamai (AKAM)

Our \$145 PO is based on roughly 22x CY24 P/E. The valuation is a discount to Cloud Compute peers who trade at 28x, however is a premium compared to Content Delivery Networking companies who trade at 5x. We believe the company should be valued at the lower end of Cloud Compute peers as the company has expanded further into core computing with its distributed compute segment, offering a hybrid cloud compute solution that combines both core and edge functionalities.

Upside risk to our price objective includes faster growth of compute and security products, and stabilization of the delivery business, which could support higher growth from current levels and drive up valuation.

Downside risks to our price objective are 1) product convergence leading to a shrinking market with larger competitors, 2) exposure to commoditizing markets, 3) slower adoption of the distributed compute model

## Analyst Certification

I, Madeline Brooks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Telecom and Data Networking Equipment Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Akamai	AKAM	AKAM US	Madeline Brooks
	Amdocs	DOX	DOX US	Tal Liani
	Arista Networks	ANET	ANET US	Tal Liani
	Check Point Software Technologies	CHKP	CHKP US	Tal Liani
	Ciena	CIEN	CIEN US	Tal Liani
	CrowdStrike Holdings Inc.	CRWD	CRWD US	Tal Liani
	CyberArk	CYBR	CYBR US	Tal Liani
	Fastly	FSLY	FSLY US	Madeline Brooks
	Fortinet	FTNT	FTNT US	Tal Liani
	Gen Digital, Inc.	GEN	GEN US	Jonathan Eisenson
	InterDigital, Inc.	IDCC	IDCC US	Tal Liani
	Motorola Solutions	MSI	MSI US	Tomer Zilberman
	Qualcomm	QCOM	QCOM US	Tal Liani
	Zscaler	ZS	ZS US	Tal Liani
<b>NEUTRAL</b>				
	Cellebrite	CLBT	CLBT US	Tal Liani
	Cisco Systems	CSCO	CSCO US	Tal Liani
	Palo Alto Networks	PANW	PANW US	Tal Liani
	SentinelOne, Inc.	S	S US	Tal Liani
<b>UNDERPERFORM</b>				
	Cloudflare	NET	NET US	Madeline Brooks
	CommScope	COMM	COMM US	Tal Liani
	F5 Inc	FFIV	FFIV US	Tal Liani
	Okta Inc	OKTA	OKTA US	Madeline Brooks
	SecureWorks	SCWX	SCWX US	Tal Liani



## iQmethod<sup>SM</sup> Measures Definitions

### Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

### Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

### Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

### Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

### Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

### Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

### Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

### Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

### Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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### Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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