Akamai Tech.

BUY: US$102.20 (+42%)

NUS INVESTMENT SOCIETY

Equity Research Department

19 April 2019

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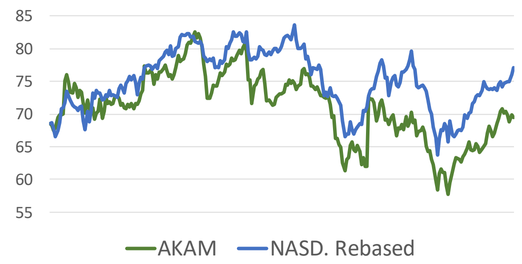
Basic Information

Last Closed Price	$72.30
12M Target Price	$102.20
+/- Potential	+42%
Bloomberg Ticker	AKAM: US
GICS Sector	Internet Serv. & Infra
GICS Sub-Industry	Information Tech.

1Y Price v Relative Index



Company Description

Akam. Tech is a content delivery network and cloud service provider headquartered in the US. They are one of the world's largest distributed computing platform that seeks to accelerate the delivery of content through the internet by spreading their servers over several countries. 15% - 30% of the world's web traffic currently flows through Akamai.

Key Financials

Market Cap	11.33B
Basic Shares O/S	162.87M
Free Float	96.9%
52-Wk High-Low	US$57.18 – US$83.08
Fiscal Year End	31-Dec-18

(US$ M)	FY18A	FY19E	FY20E
Revenue	2,714	3,059	3,420
Gr Rate (%)	9%	13%	12%
EBITDA	708	941	1052
Margin (%)	26.1%	30.8%	30.8%
Net Income	298	437	489
Margin (%)	11%	14.3%	14.3%
ROA	8.3%	12.4%	12.5%
ROE	14.1%	18.0%	17.6%
EV/EBITDA	11.8x	12.5x	11.2x
P/E Ratio	26.9x	27.0x	24.1x
D/E Ratio	20.0%	48.9%	24.1%

Key Executives

F. Thomson Leighton	CEO & Director
Rick M. McConnell	GM of Web Division
James Benson	CFO & Principal Accounting Officer

On Cloud Nine

We are initiating coverage of Akamai Tech. with a Buy rating and a $102.20 12M price target.

4Q18 Earnings Review

- Revenue for Q4 came in at $713 million, an 8% increase over the fourth quarter in 2017.
- Cloud Security Solutions revenue in the fourth quarter was $185 million, up 36% year-over-year. For FY18, CSS was up 35% y-o-y.
- GAAP EPS for the fourth quarter was $0.57 per diluted share, a 256% increase from the same quarter in 2017. GAAP EPS for FY18 was $1.76 per share, a 36% increase from the prior year's GAAP EPS of $1.29 per diluted share.

Investment Thesis

- In view that Akamai has proven to have been able to defend its CDN user base against other industry competitors, a bolstering IT security segment sheds light on the firm's strong position among its peers.
- With a strengthening security division that has been steadily gaining market share, Akamai is primed to effectively capitalise on the increase in demand for security in the DDOS and Web Application Firewall (WAF) space.
- With clear management guidance to widen margins through the consolidation and offshoring of assets, the firm shows potential to reduce the downwards pressure on its bottom line. Additionally, a renewed focus on improving productivity further paints a more profitable future for the firm.

Catalysts

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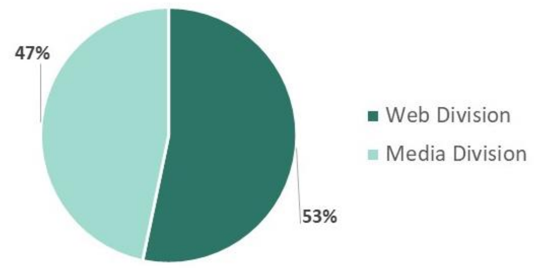
Valuations

Our 12-month price target from date of coverage is a blend of the 3 share prices which we have derived from DCF with a Terminal Growth Rate, DCF with an Exit Multiple and a relative valuation with a comparable universe. As we believed that the cyclical nature of tech industry causes the company cashflow to be less predictable, we placed a higher weightage for the TP of RV at 70%. The TPs from the other 2 methods were weighed at 15% each.

Investment Risks

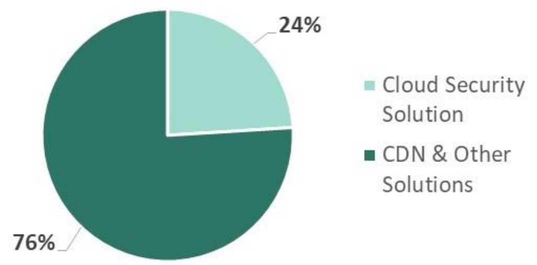
- Increased competition by cloud providers such as Cloudflare would cause greater pressure on ASP reducing revenue growth.
- Synergies from acquisitions such as Janrain fail to realise which may derail the growth story of cloud security business.
- Volatile foreign exchange rates affect revenue streams from international nodes.

Figure 1. Revenue by Division, FY18



Source: AKAM FY18 Annual Report

Figure 2. Revenue by Solution, FY18



Source: AKAM FY18 Annual Report

Figure 3. Revenue by Geography, FY18

Source: NFLX Q3 Quarterly Report 2018

Company Overview

The company was established in 1998, by Daniel M. Lewin and Tom Leighton as a novel business proposition when they were both at MIT as graduate student and a mathematics professor. Lewin has been the CEO of the company since the untimely death of Lewin in 2001. The company not only provides servers to host media and network operators, it also provides performance and security solutions. As of FY2018, some of the largest customers that has enlisted Akamai's platforms include Microsoft, Apple, Amazon, Facebook, Alibaba, Alphabet and Netflix.

Their revenue can be broken down into 3 main blocks. Namely, Performance and Security Solutions, Media and Delivery Solutions and Services and Support Solution. Currently, up to 62% of their revenue comes from the United States. The remaining portion of their revenue is well spread over the rest of the countries, with no one country contributing to more that 10% of revenue. Over the last 3 years, the revenue that has been brought in as a result of their Performance and Security Solutions have been growing at healthy double-digits level.

Business Model

Akamai is the world's leading Content Delivery Network and premium cloud security provider. Owning the world's largest distributed computing platform, they are responsible for serving up to 30% of the world's total network traffic. In addition to this, they also provide cloud security solutions for all relevant stakeholders.

Their organisational structure is broken down into two divisions, the Media and Web Division. This organisational model aims to better serve their customers as each division can be more specialised in meeting their needs. The transition to a customer and solution centric model allow Akamai to leverage on its large scale of business to provide the best and most innovative solutions.

Currently, 53% of Akamai's business stems from its Web Division, while the Media Division made up the rest of the revenue. Akamai charges based on data usage and is typically charges for more per unit of data streamed for media delivery services. Akamai's billing structure is also one that scales with the size of the client's business. This is in hopes of attracting small start-ups to choose Akamai as their web and media host.

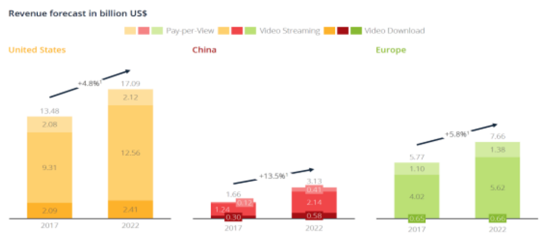
A Leader In The Provision Of Cloud Security Services

With the rapid adoption of cloud computing, cloud security is becoming a major concern for corporations that are hoping to make the switch. In hopes of profiteering greatly off this trend, Akamai has been placing consistent focus on its security solutions. Confident that it would translate into more significant growth opportunities over the long term, success in capturing this demand for greater security would allow Akamai to benefit from the immense amount globally spent on "Security Technology", an area that is projected to exceed $124 billion in 2019.

4Q18 Earnings Review

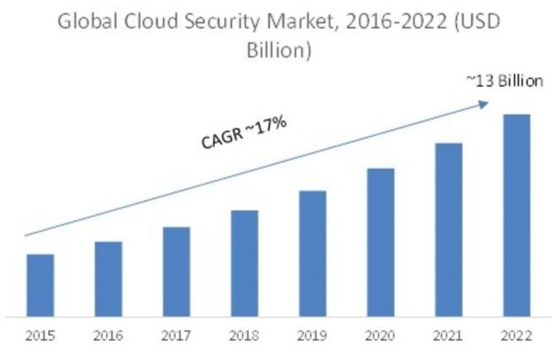
- Revenue up $713 million, up 8% year-on-year; this exceeded expectations due to rapid growth in cloud security business and focus on operational excellence
- 4Q18 was the fifth time that Akamai managed to achieve an operating margin expansion
- Web division for the 4th quarter contributed $385 million to the entire revenue earned for this period; this brought the revenue from Web Division up to $1.446 billion for FY2018
- The other division of the firm, the Media and Carrier Division, made up the remaining $328 million dollars of the revenue earning from the quarter

Figure 5. Cloud Computing CAGR



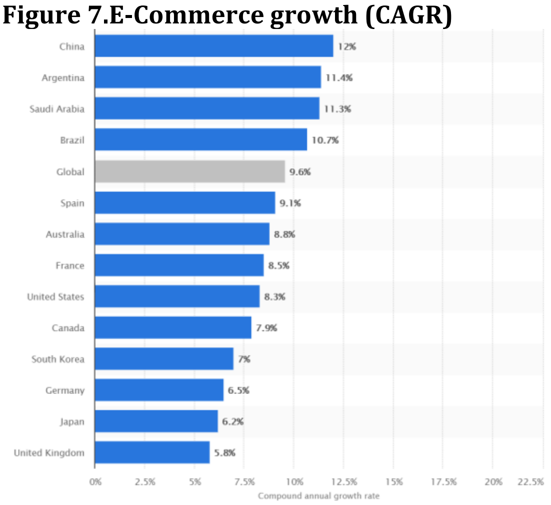
Source: DigitalTV Research

Figure 6. Cloud Security Growth



Source: Market Research Future

Figure 7.E-Commerce growth (CAGR)



Source: Statista

- GAAP EPS for the 4th quarter was at $0.57 per share, a 256% increase from the $0.16 2017 fourth quarter EPS
- For FY18, the Company spent $750 million on share buybacks at an average price of $73.54

Industry Outlook

Continued Heavy Expansion For Cloud Services

Traditionally, many organizations host their IT resources in brick and mortar data centres which are owned and managed by these organizations themselves. Pressed for greater margins, companies are constantly looking for more cost cutting options. As such, more companies are looking towards an asset light model where they allow IT services firms to manage their various IT needs. This greatly reduces capital spending, saving cost and improving the margins for the client companies.

IT services firms like Akamai Technologies are situated advantageously in this space to capitalise on the increased demand for these kinds of hosting services. As the demand by clients start to expand across multiple platforms which have different infrastructural needs, there has also been an underlying trend for IT services firms to integrate a wider product range so as to be able to accommodate the full suite of request their clients might require.

Some products and offerings that organizations are specifically looking out for include Infrastructure as a Service (IaaS), Platform as a Service (PaaS), and Software as a Service (SaaS) to support their business operations. IT services firms are now even offering hybrid cloud solutions to customers who do not wish to adopt a 100% public cloud business model. This scheme allows these IT firms to be support the transition of client's platform from offline to cloud completely. The flexibility in such arrangements effectively boosts the firm's ability to profit throughout the entire transitioning process. The cloud services industry sees a 12.7% 5-year CAGR with expected market size to total US $277B by 2021.

Rising Importance Of Digital Storage And Security

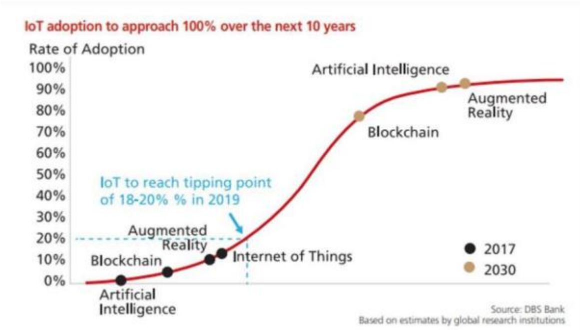
For the sake of ease of access and lower costs, many organizations and individuals prefer to keep their data in the cloud rather than in physical storage devices like HDDs and SSDs. However, these data don't get magically stored in a place called 'The Cloud' and still have to be stored in data centres that are operated by IT services firms. Compared to on site data storage system, digital storage provides benefits such as lower cost per byte as well as scalability. The global data centre market is expected to grow at a CAGR of 14.2% from 2018 to 2026, with market size and share surpassing US $105 Billion by 2026.

The increased use of the internet for various hosting services also increases the possibility of disruption. Currently, the greatest risk that poses a threat for most online business is a direct attack on their online web platforms. These attacks often come in the form of Distributed Denial of Service (DDoS) and web application attacks which aims to overload sites with web-requests in order to force them to go offline and incur costly loss of orders.

In order to reduce the losses as a result of such site downtimes, the cloud security market is also an area that has seen great growth over the last few years. The cyber security markets are expected to grow at a CAGR of 10.2% between 2019 and 2022 due to more widespread adaptation of cyber security services by companies worldwide. With the trend towards greater cloud adoption, organizations will increasingly require the cyber security services of IT firms to adequately protect themselves.

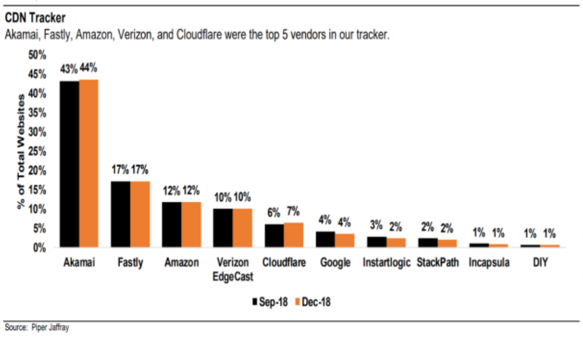
Increased Consumer Exposure To Online Goods And Services

Figure 8. IoT Adoptation



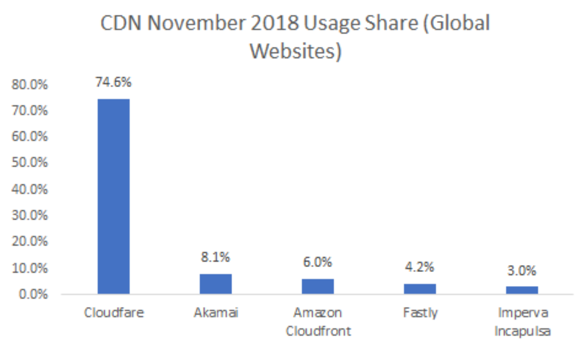
Source: DBS Bank

Figure 9. Piper Jaffray CDN Tracker(Top 250 websites)



Source: Piper Jaffray

Figure 10. Piper Jaffray Global Websites CDN Usage Tracker



Source: Piper Jaffray

With the widespread adoption of the internet, consumers globally are getting increasingly exposed to goods and services that are offered through the internet. Several examples of such goods and services include E-commerce, Over The Top (OTT) media, online gaming and Internet of Things (IoT).

E-commerce is an extremely huge platform which is growing at an unprecedented rate all around the world. People of diverse backgrounds are increasingly choosing to make their purchases from online stores instead of physical ones. Online shopping brings about much more convenience and accessibility and this is greatly appreciated by consumers worldwide. This can be seen from the volume of E-commerce sales which expanded greatly from 1.336T in 2014 to 2.842T in 2018.

OTT media is a form of on-demand media streaming services. The emergence of live streaming trends and virtual reality technology is a great opportunity for key players in the industry to offer novel products to the OTT market. Smartphones and tablets are the go-to devices for consumers when they decide on OTT media. With smartphones becoming more affordable, this will lead to a surge in demand for OTT media products. The OTT media market is expected to see a strong growth with a 10-year CAGR of 17.4%

The online gaming industry has experienced phenomenal growth in the past 5 years. This trend is expected to continue in the near future with the emergence of smartphone gaming. Gamers used to be able to only play games on their video game console, which made portability an issue. With smartphone gaming, gamers can now game wherever they want, increasing portability and reducing barriers of entry for new players. Online gaming is expected to grow at a 5-year CAGR of 10%.

IoT is the extension of internet connectivity to everyday objects like household appliances. This allows the appliances to interact with each other and transfer data without the need of human-to-human or human-to-computer interaction. IoT streamlines business's operations and is likely to be adopted by organizations on a wide-scale basis. Unsurprisingly, worldwide technology spending on IoT is expected to reach US $1.2T in 2023, attaining a 5-year CAGR of 13.6%.

Investment Thesis

1. Competition In The Media Is Easing Up

Akamai's stock price fell 21% in the second half of last year, mainly due to concerns over competition in the media segment. The media segment still drives xx% of revenue, and xx% of EBITDA, although management is driving strong growth in its security segment. Concerns regarding the media segment centre around the entry of competitors such as Cloudfare, Amazon CloudFront and Fastly, which has led to an erosion of Akamai's once dominant market share. A large opportunity in the CDN market has led to this influx of competitors. At the same time, some customers have decided to set up their own DIY CDN networks, leading to further loss of usage share. At present, Akamai's CDN market share is estimated at 35%(Piper Jaffray), a fall of roughly 15% from 2016. However, we believe this market share loss is at an inflection point, with surveys done by Morgan Stanley indicating that Akamai's customer base has stabilised and declines in spending have stopped.

The first reason behind this is due to the high investment required CDN networks. As such, only a handful of large, heavily content focused companies such as Netflix are able to create them. We believe that most of such eligible companies have already took the step like Netflix. The Morgan Stanley survey backs our thesis, with Akamai's top 6 Media customers slowing their drop in revenue contribution. We believe that this group of customers which are the most likely to turn to DIY, will not cause further large declines in revenue.

The second reason for our optimism are surveys showing usage gains, indicating that while Cloudfare might have a larger customer base, Akamai still defends a strong base of higher quality customers. Based on Piper Jaffray's CDN tracker which assesses the global top 250 websites, Akamai increased market share by 1% from 43% to 44%, in the period September to December 2018. We believe that this increase in market share shows that either competition is easing, or Akamai has been successfully competing against newer entrants like Cloudfare. Thus, we are optimistic on the competitive landscape, as the top companies command a disproportionately high amount of usage compared to the rest of the internet. This strength in the top customer pool also points towards Akamai's high service standards, allowing it to serve customers with a high touch, compared to Cloudfare which has a global share 74.6%, yet only 17% in the top 250 customers. We think this is due to Cloudfare taking a purely price based approach which does not cater to the complicated needs of large customers.

2. Strengthening Position In Cloud Security, Especially In The Ddos And The WAF Space

Akamai's security division is steadily gaining market share, and this strengthening is expected to continue, especially in its core DDoS and WAF space. There are two main reasons for its increasing dominance.

First, Akamai is positioned uniquely to leverage on its existing web client base by cross-selling them security solutions. Its position as the largest CDN provider allows them to offer Web and Media customers security solutions as a logical addon, while their position at the edge serving content to end-users bolsters its value proposition.

Second, Akamai has been improving its security solutions, coming up with products such as Bot Manager, Enterprise Threat Protector and Enterprise Application Access. This is important for them as cyberattacks are continually evolving. In addition, Akamai's solutions experienced a slight underperformance compared to that of other providers in cyberattacks in early 2018. During those incidents, GitHub(Akamai's customer) was knocked out for around 5 minutes while customers of competitors were not affected. By improving its portfolio of solutions, Akamai solidifies its position in cloud security.

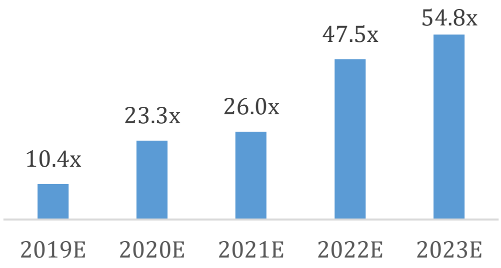
Third, Akamai has recently completed the acquisition of Janrain, a Customer Identity and Access Management platform. At the same time, they divested their previous identity security platform Akamai Identity Services. Janrain is an improvement on their previous platform due to better technology, and thus we think that they have improved their strategic positioning, allowing them to compete better in the security space.

3. Room For Wider Margins Paint A More Profitable Future

After Elliot Management got involved as an activist investor in Akamai, the management pledged to increase operating margins to 30% by 2020. They intend to achieve this through 3 key ways.

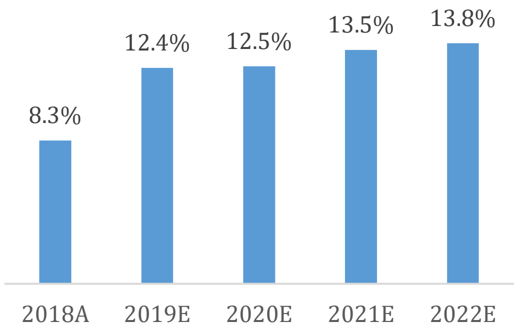
First, they intend to grow gross margins by 1-2% from 2017 levels through co-location migration, utilization improvements, and an increasing use of offshore resources. Other than a focus on growing the company's top line, Akamai is also dedicated in reducing their operational cost to for wider margins. Although Akamai understands that cloud hosting is the way forward, it also realises that an immediate change to cloud is not an option for most business today. Inherent technical limitations and overt-paranoia when it comes to the lack

Figure 11: Interest Coverage Ratio



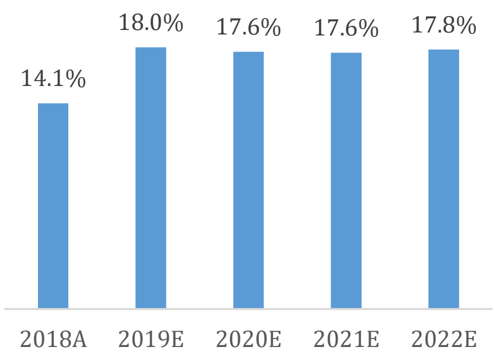
Source: Team Estimates

Figure 12: Return on Asset



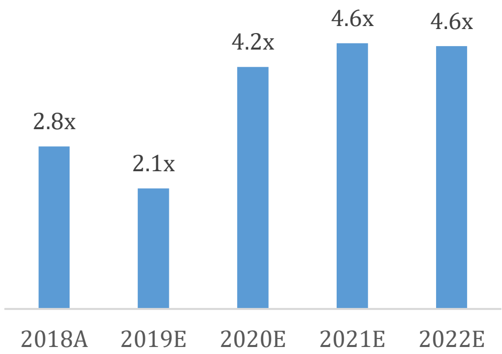
Source: Team Estimates

Figure 13: Return on Equity



Source: Team Estimates

Figure 14: Projected Current Ratio



Source: Team Estimates

physical control of their infrastructure continues to be an impediment to greater cloud hosting adoption. As such, they have decided to focus their efforts on co-location migration, helping clients move portions of their client's infrastructure to their "carrier centres". This is a low hanging fruit that Akamai aims to capture in view that complete integration onto cloud platforms is still an idea that not all corporations are completely comfortable with. This strategy of Akamai's is in line with the current market needs and has the potential lift their top line.

Second, management expects G&A and Depreciation as a percentage of revenue to be ~2-3% lower in 2020 vs 2017. They intend to do this by consolidating facilities and increasing automation.

Third, Akamai expects to raise margins by another 1-2% by improving productivity per sales representative and marketing efforts. Although Elliot has sold off part of its position, it still retains one board seat and is able to influence Akamai to execute its margin expansion plan.

Catalyst

1. Improvement in CDN solutions revenue

A material improvement in CDN solutions revenue growth to a high single digit range would likely spark an improvement in sentiment as it would indicate that Akamai is successfully competing against other entrants and DIY. At the current low trading multiples, there is a large opportunity for multiple expansion to occur.

2. Execution on cost-control initiatives

Akamai previously set a target for 30% operating margins by 2020. OP margin for FY2018 was 26.5%, although it had increased to 28.2% in 4Q2018. While stock prices experienced a boost when this target was announced, the market has still not given it full credit for the progress it has made thus far. We believe that continued execution on this front will cause sentiment to improve.

3. Increasing adoption of 4K streaming

Better than expected growth of 4K streaming would lead to increased requirements of CDNs. At present, 4K streaming has not lived up to its hype. However, an increase in its growth rate would boost Akamai's revenue growth, increasing optimism.

Financial Analysis

Akamai Technologies Inc

Key Ratios

	Units	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E
Profitability Ratios									
EBITDA Margin	%	29.1%	24.5%	26.1%	30.8%	30.8%	30.8%	30.8%	30.8
Operating Margin	%	19.8%	15.1%	16.6%	21.3%	21.3%	21.3%	21.5%	21.4
Return on Assets	%	10.6%	8.2%	8.3%	12.4%	12.5%	13.5%	13.8%	13.7
Return on Equity	%	14.3%	11.4%	14.1%	18.0%	17.6%	17.6%	17.8%	17.4
Growth Ratios									
Revenue	%	6.1%	6.5%	7.8%	11.3%	10.6%	11.5%	12.6%	10.1
EBITDA	%		-9.9%	15.3%	32.9%	11.8%	13.1%	14.4%	11.3
Operating Income	%	-1.4%	-18.2%	19.2%	44.6%	11.6%	13.3%	15.3%	11.0
Solvency Ratios									
Total Debt/Equity	%		19.9%	20.0%	48.9%	24.1%	21.2%	11.6%	10.2
Total Debt/Total Assets	%		14.6%	14.4%	28.6%	16.7%	15.0%	8.9%	7.9
EBIT to Interest Expense	x		24.9x	20.1x	10.4x	23.3x	26.0x	47.5x	54.
Liquidity Ratios									
Cash Ratio	x		0.9x	0.7x	0.9x	1.3x	1.7x	1.6x	2.
Current Ratio	x		3.5x	2.8x	2.1x	4.2x	4.6x	4.6x	5.
Market Ratios									
Price-to-Earnings	x		37.5x	26.9x	27.0x	24.1x	20.9x	18.1x	16.
Price-to-Book Value	x		3.3x	3.1x	3.2x	2.9x	2.5x	2.2x	1.
EV/EBITDA	x		15.2x	11.8x	12.5x	11.2x	9.9x	8.7x	7.
EV/Sales	x		4.2x	3.5x	3.9x	3.4x	3.0x	2.7x	2.

1. Increasing Interest Coverage Ratio

Figure 15. WACC Build-Up

Cost of Equity	**9.54%**	
Risk-free rate	2.5%	*US 10Y T-Bond
Beta	0.9	
Market Risk Premium	7.9%	
Cost of Debt	**3.75%**	
Pre-tax cost of debt	4.75%	
Tax rate	21%	
Market Cap (US$'000)	11,377	
Total Debt (US$'000)	1,561	
WACC	**8.4%**	

Source: Team Estimates

Figure 16. Relevering of Beta

Company	Levered Beta	Tax Rate (%)	D/E	Jnlevered Beta
AKAMAI TECH	**1.1**	**21.0**	**48.9**	**0.8**
CISCO SYSTEMS	1.1	26.8	59.2	0.8
F5 NETWORKS	0.8	24.5	0.0	0.8
JUNIPER NETWORKS	1.0	21.0	44.3	0.7
ARISTA NETWORKS	1.3	21.0	1.8	1.3
MELLANOX TECHNOL	0.7	21.0	0.0	0.7
EQUINIX INC	0.8	21.0	157.0	0.3
Median			23.1	0.8
Relevered Beta				**0.9**

Source: Team Estimates

Figure 17. Perpetual Growth Method

Perpetuity Growth Method	
Total PV of Projected FCFF	3,710
Long-term growth rate	2.0%
Final year FCFF	1,198
Terminal value	19,127
PV of terminal value	**13,594**
Enterprise value	**17,304**
Less: Debt	(1,561)
Add: Cash	1,036
Less: Minority interest	-
Add: Investments in associates	-
Implied equity value	**16,779**
NOSH	163
Implied stock price	**$ 102.94**
Current Price	**$ 72.30**
Upside/ Downside	**42%**

Source: Team Estimates

Figure 18. Exit Multiple Method

Exit Multiple Method	
Total PV of Projected FCFF	3,710
Terminal year EBITDA	1,514
Exit EV/EBITDA	12.0x
Terminal value	18,169
PV of terminal value	**12,913**
Enterprise value	**16,623**
Less: Debt	(1,561)
Add: Cash	1,036
Less: Minority interest	-
Add: Investments in associates	-
Implied equity value	**16,099**
NOSH	163
Implied stock price	**$ 98.76**
Current Price	**$ 72.30**
Upside/ Downside	**37%**

Source: Team Estimates

Akamai's financials remain healthy as their interest coverage ratios are expected to grow and have additional room to take on more debt to fund further expansion plans and would be unlikely to run into solvency issues in the near term.

2. Strong Growth in Return on Asset and Equity

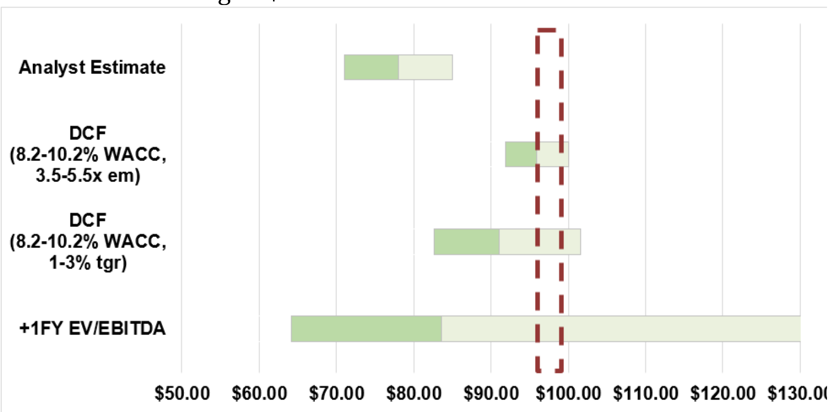
As Akamai continues to expand in the cloud networking space, they are expected to become more profitable as shown through its growing return on asset and equity margins. This signals strong growth prospect financially for the company through it expansion strategy.

3. High liquidity of assets in Akamai shows health of balance sheet

Akamai's cash and current ratios are expected to increase and have very healthy numbers indicating their strong ability to pay of current liabilities. This is necessary to enable to company to be able to pay off their short-term obligations.

Valuations

Valuation Price Target: **$102.20**



DCF Model

A discounted cash flow analysis was used to estimate intrinsic value of Akamai's share price due to concerns with its cash flow generation capabilities. The primary model is forecasted over 5 years based on management guidance and available information released by Akamai. The 5-year DCF model is then ran at a 2% terminal growth rate to perpetuity in order to gauge long term cash flow generation capability of Akamai.

Weighted Average Cost of Capital (WACC)

As Akamai operates in multiple geographical regions, we use a blended Equity Risk Premium (ERP) of 7.9% to be used in the calculation of Cost of Equity. The blended ERP is a weighted average of equity risk premium of Akamai's core markets. We used the US's 10Y treasury bond yield of 2.5% as the risk-free rate. For beta, we used the industry's unlevered beta and relevered to the target D/E ratio to take into account its stabilized capital structure.

Revenue Growth & Terminal Growth

As Akamai's revenue stream could be divided into either division (Web, Media) or products (Cloud Security Solutions, CDN & Other Solutions). As the product types are have significantly different growth trajectory, we have decided to adopt revenue projections by product solutions. Akamai places huge emphasis on the growth of the Cloud Security Solutions and we project to grow close to industry growth rate as it is having a huge market share of the cloud security market. As a leader in the CDN space, we expect Akamai to maintain market leadership and

Figure 19. Peer Groups Used for Trading Comps Analysis

Core Peer Group

CISCO SYSTEMS

F5 NETWORKS

JUNIPER NETWORKS

ARISTA NETWORKS

MELLANOX TECHNOL

EQUINIX INC

Source: Team Estimates

Figure 20. Target Price Derivation Through Trading Comps

+1FY EV/EBITDA	
+1FY EBITDA	941
EV/EBITDA	15.0x
Implied EV	14,147
Implied Equity Value	16,744
NOSH	163
Implied Share Price	$ 102.73

Source: Team Estimates

Figure 21. Blended Target Price

Overall Target Price	
Method	**Weightage**
+1FY EV/EBITDA	70%
DCF (8.2-10.2% WACC, 1-3% tgr)	15%
DCF (8.2-10.2% WACC, 3.5-5.5x em)	15%
Blended Target Price	**$ 102.16**
Last Price as of 13/3/19	**$ 72.30**
Upside/Downside	**41.3%**
Rating	**BUY**

Source: Team Estimates

Figure 22. Risk Matrix

Probability				
	3		S3	
	2		B2	
	1		M1	B3
		1	2	3
		Impact		

Source: Team Estimates

grow in tandem with the overall market as more internet traffic require CDN solutions.

Akamai's revenue growth would eventually slow slow down and is not expected to exceed the LT GDP growth rate of mature economies. Hence, we use the terminal growth rate of 2% as a proxy for the terminal growth rate for Akamai in our DCF model.

Relative Valuation

We conducted thorough analysis on Akamai's comparable companies and selected the comparable company's universe through the following criteria: (i) Business model, (ii) geographical boundaries of operations and (iii) market capitalization. We categorised the comparable companies into General application/server software solution companies, networking solutions and CDN solutions. From the universe of comparable companies, we shortlisted 8 closest companies to conduct valuation analysis.

Akamai is currently trading at 11.8x EV/EBITDA versus a median 15.0x amongst its peers, showing it is overvalued compared to its peers. We have also used a target +1FY EV/EBITDA of 15.0x (the median value of the comparable universe) to arrive at a implied share price of $102.73.

Target Price

To ensure a robust valuation is generated, we used a target +1FY EV/EBITDA to arrive at a +1FY target price of $102.7. Using the discounted discounted cash flow (DCF) analysis, we found calculated that a terminal growth rate of 2% valued Akamai at $102.9/share, while an exit-multiple of 12.0x arrived at a target price of US$98.7. Recognising that relative valuation produces a more robust valuation, we placed 70% weights on its target price and 15% on both the target price of exit-multiple and perpetual growth method, to arrive at a target price of $102.2, with an upside of 41.3%. We have noted the relatively similar valuation across all 3 methodologies, which lends greater credibility to our weighted target price of $102.2.

Investment Risks

Market Risks
M1: Volatile foreign exchange rates affect revenue streams from international nodes.

Business Risks
B2: Synergise from acquisitions such as Janrain fail to realise which may derail the growth story of cloud security business.

B3: Security breach or downtime in Akamai's products would lead to decline in customer base leading to significant revenue loss.

Strategic Risk
S3: Increased competition by cloud providers such as Cloudflare would cause greater pressure on ASP reducing revenue growth.

Disclaimer

Appendix:

Revenue and Financial Projections

Pro Forma 3FS