

# AKAM Earnings Call Transcript

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**Quarter: 2**

Operator: Good day, and welcome to the Second Quarter 2025 Akamai Technologies, Inc. Earnings Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Mark Stoutenberg, Head of Investor Relations. Please go ahead.

Mark Stoutenberg: Thanks, and good afternoon, everyone, and thank you for joining Akamai's Second Quarter 2025 Earnings Call. Speaking today will be Tom Leighton, Akamai's Chief Executive Officer; and Ed McGowan, Akamai's Chief Financial Officer. Please note that today's comments include forward-looking statements, including those regarding revenue and earnings guidance. These forward-looking statements are based on current expectations and assumptions that are subject to certain risks and uncertainties and involve a number of factors that could cause actual results to differ materially from those expressed or implied. The factors include, but are not limited to, any impact from macroeconomic trends, the integration of any acquisition, geopolitical developments, and other risk factors identified in our filings with the SEC. The statements included on today's call represent the company's views on August 7, 2025, and we assume no obligation to update any forward-looking statements. As a reminder, we will be referring to certain non-GAAP financial metrics during today's call. A detailed reconciliation of GAAP to non-GAAP metrics can be found under the financial portion of the Investor Relations section of akamai.com. With that, I'll now hand the call off to our CEO, Dr. Tom Leighton.

F. Thomson Leighton: Thanks, Mark. I'm pleased to report that Akamai had an excellent second quarter with results coming in above our guidance for revenue, margin and earnings per share. Revenue grew to \$1.043 billion, up 7% year-over-year as reported and up 6% in constant currency. Non-GAAP operating margin was 30%. And non-GAAP earnings per share came in at \$1.73, up 9% year-over-year as reported and in constant currency and \$0.15 above the high end of our guidance range. Our strong performance was enabled by the stabilization of revenue from our delivery product line, combined with the solid growth of our security and compute product lines, as we continue to reposition Akamai to take advantage of the tailwinds in these markets and the substantial opportunities associated with AI. I'm especially excited about the growth and opportunity we're seeing for our cloud infrastructure services portfolio. CIS revenue in Q2 was \$71 million and grew at 30% year-over-year as reported and 29% in constant currency. We're projecting even faster growth throughout the remainder of the year as we start recognizing revenue from some large deals signed earlier this year. As a reminder, our cloud infrastructure services portfolio consists of the compute and storage solutions that we've developed based on Linode, along with our Edge Workers product and the ISV solutions running on our cloud platform. It's the high-growth portion of our cloud computing product line, and it's where we're focusing our investments. Our rapid growth in cloud infrastructure services is driven in part by our customers' desire to get their compute instances closer to end users for improved scalability and performance and by their need to reduce cost. This is particularly true for new Gen AI applications, which are increasingly being used to drive real-time decisions, shape user experiences and power operations. To attract and retain customers, businesses are developing a variety of AI-based apps and agents for personalization, support, search, inference and other tasks. Akamai's globally distributed platform spanning more than 4,300 points of presence across 130 countries offers unique advantages for deploying such AI applications bringing business logic and data to within milliseconds of end users globally and operating

at a scale that provides a petabyte per second of throughput capacity. Already, customers have deployed AI-powered applications on Akamai Cloud for tasks such as image classification, image optimization, speech to text and speech to image, chatbots, inference engines, virtual fitting rooms to name a few. Last month, we introduced our new AI gateway solution to customers at an event in London. This new solution is designed to address 3 of the biggest challenges that businesses encounter when they deploy large language models, AI that's too slow, too vulnerable to attack and too expensive to run at scale. AI gateway acts as a smart traffic controller that sits between users and the AI services deployed by our customers. So now instead of every AI request having to travel all the way to a centralized server, Akamai makes it possible to handle many of these requests closer to the user at the edge. Moving AI closer to the action makes each interaction faster makes our customers' systems more energy and cost efficient and ultimately allows our customers to deliver a vastly better experience for their users. The edge is also where Akamai deploys our security solutions, including our new firewall for AI that fights prompt abuse and model compromise as well as our bot and abuse solutions that help our publishing customers monetize their content by monitoring and controlling access by AI scraper bots. AI gateway and firewall for AI are prime examples of how we're bringing our expertise at the edge to the cloud to make AI faster, more secure and significantly more affordable. There are also good examples of the synergy between our new cloud computing capabilities and our security and delivery product lines as customers buy cloud computing from Akamai alongside security and delivery. Examples of the many contracts we signed in Q2 that included a large commit for our cloud infrastructure services, our 3-year \$16 million renewal and expansion agreement with one of the largest companies at the forefront of the AI revolution, a 2-year \$28 million agreement with one of the world's leading travel companies, a 3-year \$18 million deal with a leading Internet platform in South Korea, a \$19 million deal with an Internet company in Japan, and a 3-year \$10 million agreement with one of the world's leading media companies. Turning now to security. Security growth was driven in part by the continued strong demand for our market-leading Guardicore Segmentation solution as more enterprises relied on Akamai to meet compliance requirements and to defend against ransomware and data exfiltration malware. Ransomware remains a top financial and reputational risk for enterprises as illustrated by the highly publicized attacks that took down several major retailers in Q2. According to news reports, one attack in April on a British retailer impacted operations for at least 3 months, costing the company an estimated \$400 million in lost revenue. And a retailer in the U.S. reported \$20 million in lost sales when a cyber attack took down its e-commerce platform during their Memorial Day weekend sale. In a world where attacks are finding new ways to penetrate traditional perimeter defenses, segmentation is the last and most important line of defense for major enterprises. And our market-leading segmentation solution is making a big difference for our customers. With our sophisticated threat intelligence, we've detected a wide variety of malicious ransomware attacks on commerce companies. And customers who use our segmentation solution we're able to identify these attacks and protect themselves from operational harm and financial loss. In fact, Akamai is the only vendor to be named Customer Favorite in the new Forrester Wave: Zero Trust Platforms report, receiving perfect scores in 3 categories: segmentation and control, pricing flexibility and supporting services. Our segmentation wins in Q2 included a \$9 million contract for Guardicore with one of the world's leading consumer and commercial insurance providers after Akamai demonstrated the fastest time to policy across their on-prem, AWS and Azure environments. A \$5 million contract with one of the world's largest financial services companies that selected Guardicore after struggling to modernize their environment for Zero Trust to protect aging networks for which they had no visibility. And a \$3 million contract, 2/3 of which is for Guardicore with one of Japan's leading financial institutions. Wins and other industries included deals with a leading manufacturer in the U.S., a major steel producer in Asia and a large holding company in Latin America. In Q2, we also continued to see strong interest in our market-leading API security solution, which earned Akamai recognition as a leader in KuppingerCole's Leadership Compass API security and management report released last month. Our API security solution combines very well with our market-leading WAF and bot management solutions to provide a compelling platform for app and API protection for major enterprises. Major API security wins last quarter included a \$15 million agreement with one of North America's largest real estate fintech companies, which included \$2 million for API security. A \$4 million expansion contract with one of the

largest managed care organizations in North America, which included \$2 million for API security. A \$2.3 million agreement with one of the largest life insurance providers in India, which included \$1.4 million for the protection of their API ecosystem as they migrated away from their previous provider. And the \$20 million 5-year contract renewal with one of the leading fashion and home retailers in Europe that included 7 Akamai security solutions in addition to compute and delivery. We're very pleased to see customers increasingly utilize the full breadth of our security platform across applications, APIs, infrastructure and enterprise Zero Trust security. We believe this illustrates the strength of Akamai security defenses, the depth of our threat intelligence and our close relationships with enterprise customers who rely on us as a strategic partner in security, helping them consolidate their security spending with a major vendor they trust most to protect their businesses and reputations. Before I turn the call over to Ed, I'd like to say a few words of welcome to the two new directors on Akamai's Board, Janaki Akella and Bas Burger. Janaki has held several executive roles at Google, including as lead for digital transformation for Google Cloud and Chief of Business Operations. Prior to that, she was a partner at McKinsey & Company. She brings deep expertise in cloud computing, cybersecurity and AI as well as general management and strategy consulting experience. Bas Burger is the CEO of BT International, the division of the U.K. telco company that delivers global data, voice, security and cloud connectivity solutions to multinational organizations. Bas brings expertise in leading complex global organizations, executing go-to-market initiatives focused on driving customer acquisition, retention and expansion, and building strategic partnerships with major technology infrastructure and cybersecurity providers. Their insights and counsel will be invaluable to us as we continue to innovate and expand our cloud computing and cybersecurity offerings and advance our go-to-market transformation to best capture future growth opportunities. Now I'll turn the call over to Ed to say more on our Q2 results and our outlook for the rest of the year. Ed?

Edward J. McGowan: Thank you, Tom. As Tom just mentioned, we delivered very solid second quarter results with total Q2 revenue of \$1.043 billion, which was up 7% year-over-year as reported and 6% in constant currency. We also had another quarter of very strong bottom line performance with non-GAAP EPS outperforming our guidance range by \$0.15. The strong non-GAAP EPS performance was driven by a combination of higher-than-expected revenue, lower-than-expected bandwidth costs, higher interest income related to the convertible debt issuance in May and lower share count as a result of our stock buyback activity in the first half of the year. It's also worth noting that we received an unusually high amount of bandwidth and colocation credits during the quarter, resulting in a onetime positive benefit of approximately \$5 million to gross margin in the second quarter. Moving now to revenue. Compute revenue was \$171 million, up 13% year-over-year as reported and in constant currency. Compute revenue was driven by continued strength in our cloud infrastructure services, or CIS. CIS revenue was \$71 million, up 30% year-over-year as reported and 29% in constant currency. As Tom noted, we expect the growth rate of our CIS business to accelerate throughout the rest of this year and into next year, driven by some large contracts signed earlier this year that will start generating revenue late this year and into 2026 and beyond. We continue to expect CIS ARR year-over-year growth in the range of 40% to 45% in constant currency at the end of the year. Revenue from other cloud applications, or OCA, was \$100 million, up 4% year-over-year as reported and up 3% in constant currency. As we mentioned on our Q4 call in February, OCA includes many of our more mature compute products such as image and video manager, cloudlets and legacy NetStorage. We expect the revenue from OCA to remain relatively flat quarter-over-quarter for the rest of this year. However, as a result of a \$7 million onetime benefit included in Q3 2024's results, we anticipate that the year-over-year revenue growth rate for OCA will take a onetime dip in Q3. As a reminder, this onetime benefit was related to the release of some deferred revenue in conjunction with the expiration of a long-term legacy compute contract. Putting this all together, we remain very excited about our opportunities for compute. Based on the timing of revenue recognition for the larger deals I mentioned earlier, our compute growth for 2025 could be a little less than our goal of approximately 15% in constant currency for the full year. Security revenue was \$552 million, up 11% year-over-year as reported and 10% in constant currency. Within security, the combined revenue for API security and Zero Trust enterprise security was \$67 million, up 48% year-over-year as reported and 49% in constant currency. These results include approximately \$8 million of inorganic revenue from Noname. Excluding

this inorganic contribution, year-over-year revenue growth would have been approximately 32%. We continue to expect security revenue growth of approximately 10% in constant currency in 2025. And we continue to expect the combined ARR for our Zero Trust enterprise and API security solutions to increase by 30% to 35% year-over-year in constant currency for 2025. Delivery revenue was \$320 million, down 3% year-over-year as reported and down 4% in constant currency, well above our expectations. We're very encouraged by the continued improvements in both pricing and traffic growth we observed during the first half of the year. International revenue was \$516 million, up 10% year-over-year or 8% in constant currency, representing 49% of our total revenue in Q2. U.S. foreign exchange fluctuations had a positive impact on revenue of \$17 million on a sequential basis and a positive \$8 million impact on a year-over-year basis. Moving now to profitability. In Q2, we generated non-GAAP net income of \$251 million or \$1.73 of earnings per diluted share, up 9% year-over-year as reported and in constant currency and \$0.15 above the high end of our guidance range based on the items I mentioned earlier. Finally, our Q2 CapEx was \$214 million or 21% of revenue. Moving to cash and our capital allocation strategy. As of June 30, our cash, cash equivalents and marketable securities totaled approximately \$1.6 billion. As a reminder, during the second quarter, we used cash on hand and funds available under our revolving credit facility to fully repay \$1.15 billion of our outstanding convertible senior notes that matured on May 1, 2025. Following this repayment, we issued \$1.725 billion in senior convertible notes with the maturity date of May 15, 2033, and with a coupon of 25 basis points. As part of the offering, we incurred net cost of \$275 million from note hedging and warrant transactions while concurrently spending \$300 million on stock buybacks. It's worth noting that in the second quarter, we used approximately \$250 million of the proceeds from this offering to pay off prior borrowings on our revolving credit facility. The net proceeds of approximately \$900 million from this offering have been invested in highly liquid marketable securities currently yielding approximately 4% on a weighted average basis. As it relates to return on capital, as I just mentioned, we spent approximately \$300 million to buy back approximately 3.9 million shares during the second quarter. We ended the second quarter with approximately \$1.2 billion remaining on our current repurchase authorization. Year-to-date, we spent \$800 million to buy back approximately 10 million shares. Going forward, our intention remains the same to continue buying back shares to offset dilution from employee equity programs over time and to be opportunistic in both M&A; and share repurchases when market and business conditions warrant. Before I provide our Q3 and full year 2025 guidance, I want to touch on some housekeeping items. First, despite initial concerns, the likelihood of a complete TikTok ban in the U.S. appears to be less likely. With this in mind, we are now including domestic revenue from TikTok in our Q3 and full year 2025 revenue guidance. Second, regarding compute revenue. As I mentioned earlier, last year's Q3 results included a onetime \$7 million benefit that will not reoccur in Q3 2025. Third, as it relates to gross margin, we are projecting an increase in colocation and related costs starting in Q3, as we anticipate additional compute capacity coming online during the quarter. This will result in roughly a 1 percentage point increase in cost of revenue in Q3 compared to Q2. In addition, for our qualified compute partner sales, or QCPs, we occasionally bundle third-party products as part of a total solution for customers. In certain situations, we must record the gross revenue from these sales and the associated costs. The gross margin on the partner resales is typically lower than our company gross margin. Therefore, as qualified compute partner revenue increases, we expect it will lower our overall gross margin. We anticipate the sales of QCP partner solutions will impact gross margins by approximately 70 basis points this year. It's worth noting, the primary advantage of working with QCP partners is their solutions do help drive additional higher-margin CIS revenue. Fourth, as we previously discussed, we are investing to strengthen our go-to-market approach. We're increasing our sales rep hunting capacity to be more proactive in finding and securing new business and we're adding experienced specialists to help support the sales of our new security and compute products. In addition, we're also growing our channel organization to expand our partnerships and open up potential new revenue growth opportunities. These investments are crucial to our long-term success, but it will take time for the incremental headcount to ramp and start delivering results. As a result, we anticipate that our operating margin in the second half of the year will be lower than in the first half. Finally, on July 4, 2025, President Trump signed into law the One Big Beautiful Bill Act. The act includes significant provisions such as the permanent extension of certain existing provisions of the Tax Cuts and Jobs Act,

modifications to the international tax framework and the restoration of favorable tax treatment for certain business provisions. The new legislation has multiple effective dates with certain provisions effective in 2025 and others implemented through 2027. We are in the process of evaluating the act, but we do not expect it will have a material impact on our tax rate in 2025. So with those factors in mind, I'll move to our Q3 guidance. For Q3, we are projecting revenue in the range of \$1.035 billion to \$1.050 billion, or up 3% to 4% as reported and up 2% to 4% in constant currency over Q3 2024. At current spot rates, foreign exchange fluctuations are expected to have a positive \$3 million impact on Q3 revenue compared to Q2 levels and a positive \$6 million impact year-over-year. At these revenue levels, we expect cash gross margins of approximately 72% to 73%. Q3 non-GAAP operating expenses are projected to be \$327 million to \$332 million. We expect Q3 EBITDA margin of approximately 41%. We expect non-GAAP depreciation expense to be between \$139 million to \$141 million, and we expect non-GAAP operating margin of approximately 28% and for Q3. Moving on to CapEx. We expect to spend approximately \$227 million to \$237 million. This represents approximately 22% of our projected total revenue. Based on our expectations for revenue and costs, we expect Q3 non-GAAP EPS in the range of \$1.62 to \$1.66. This non-GAAP EPS guidance assumes taxes of \$54 million to \$55 million based on an estimated quarterly non-GAAP tax rate of approximately 19%. It also reflects a fully diluted share count of approximately 145 million shares. Turning to the full year. For 2025, we now expect revenue of \$4.135 billion to \$4.205 billion, which is up 4% to 5% as reported and 3% to 5% in constant currency. At current spot rates, our guidance assumes foreign exchange will have a positive \$13 million impact on revenue in 2025 on a year-over-year basis. For 2025, we are estimating non-GAAP operating margin of approximately 29% as measured in today's FX rates. We anticipate that our full year CapEx will be approximately 20% of total revenue. And for the full year 2025, we expect non-GAAP earnings per diluted share in the range of \$6.60 to \$6.80. This non-GAAP earnings guidance is based on a non-GAAP effective tax rate of approximately 19% and a fully diluted share count of approximately 147 million shares. In closing, we're very encouraged by our strong first half financial performance marked by solid results across both the top and bottom lines. With that, I'll wrap things up. And Tom and I are happy to take your questions. Operator?

Operator: [Operator Instructions] The first question comes from Mike Cikos with Needham & Co.

Michael Joseph Cikos: Just wanted to come back to some earlier comments on the financials, but I know that we have the updated view on compute. Can you just walk us through how the first half of the year transpired versus expectations, and why we're indicating how calendar '25 could finish up sub this targeted 15% that we've been talking to?

F. Thomson Leighton: Yes, I'll take the first pass at that. So far this year, compute -- particularly cloud infrastructure services, where we're focused and seeing really great growth is exceeding -- meeting and exceeding expectations. We've signed a large number of customers at significant revenue. We are in a position, depending on when that revenue starts getting recognized towards the end of the year, would impact what our overall compute revenue would be for the year, but we do forecast 40% to 45% growth in ARR on a full year basis by year-end. So a significant acceleration from where we are today, which is already doing extremely well at 30% growth on a number that is almost a \$300 million ARR. Ed, do you want to add anything to that?

Edward J. McGowan: Yes, I think you covered it, Tom. I mean it really just comes down to some of the large deals that were signed this year when they actually turn into revenue. So if it's a month or 2 late in terms of when the customers ramp up, that may potentially land revenue slightly below 15%. But I think the big key takeaway here is that we feel very confident with the business that we've signed up that we're on a significant acceleration path for CIS revenue.

Operator: The next question comes from the line of John DeFucci with Guggenheim.

Lawrence Vensko: This is Lawrence Vensko on for John DeFucci. I just wanted to quickly touch on the delivery business. So you guys have been clear about the headwinds that you've been seeing for some time now. But it seems like the last 2 quarters, we've been ahead of where the Street was expecting it to be. So if we think about the competitive environment pre-pandemic and where it is now, do you think you're seeing an incremental benefit from the exit of some of your CDN peers in recent years and some of which that you've acquired assets from? And is this just an improvement in trends? And is this a sustainable improvement in trends? Any color there would be very helpful.

F. Thomson Leighton: Yes, there's a substantial difference in the competitive landscape pre-pandemic and today, 4 of our biggest competitors pre-pandemic are gone. And we did pick up the contracts, the ones that we wanted from those customers. We've done a good job upselling and cross-selling there. On top of that, the traffic trends overall, I think, are improving, and we're seeing that. So you get a combination of a little bit better pricing environment. It's still competitive, of course, but not in a crazy way it was as 4 companies were on their death rows, just offering any price at all to get some business. And so as we look forward, as Ed talked about, we're looking at mid-single digits decline. And over the longer term, we want it to be stable and steady and not see declines there.

Operator: The next question comes from Fatima Balani with Citi.

Unidentified Analyst: This is Mark on for Fatima. Maybe just wanted to touch on CIS again. Just in regards to the large contracts you guys signed earlier this year, can you give a sense of the contract structure? Are there minimum commitments or firm demand that you see in the pipe that's really given conviction for the second half growth acceleration? It just seems like, obviously, there's a big healthy ramp here to get to the 45% ARR target.

Edward J. McGowan: Yes. This is Ed. I'll take that one, Tom. So there's a number of different contracts that were signed. We've announced a couple of them, and both of the 2 largest ones have minimum commitments, and there is a ramp to the revenue throughout the year. And as we had said at the beginning of the year, we did expect this to be revenue later in the year, and now we've got a better line of sight to it. But a lot of it depends on how quickly the customer will move the application and ramp it up. So we do have, like I said, a very high confidence level in that revenue. There's 3 or 4 really large contracts that have been signed, all which have commitments. So we feel pretty good about that.

Unidentified Analyst: Great. And maybe just a follow-up. Does the 40% to 45% ARR growth target assume only the minimum commitment? Or what's sort of the building blocks here?

Edward J. McGowan: Yes. So the way we define the ARR, just to make it simple for investors to follow is we just take the Q4 times 4 as an ARR proxy. So it be -- it wouldn't be the minimum commit necessarily. It would be whatever revenue that we were generating from those contracts within the particular quarter in Q4.

Operator: The next question comes from Frank Louthan with Raymond James.

Frank Garrett Louthan: Can you give some insight into the guide? And to what extent is the uptick in the guide coming from including TikTok for the rest of the year? And then as a follow-up, the subdivision on the compute, can you maybe give us a little more color on what's going on in the part of that business besides Linode that's growing a little bit less?

Edward J. McGowan: Yes, sure. So in terms of the guidance, as we've disclosed for a while now, what the U.S. revenue from TikTok is, it's about \$40 million, \$40 million to \$50 million. So you can assume about half of that roughly given that we're giving guidance for the back half of the year is in the number. So as you can tell, the midpoint of the guide is up much more than that. So there's more to it than just the TikTok increase. It's really kind of strength across the board. And then your other question was in terms of the other cloud applications. If you go back to the last call we had when we talked about the other cloud applications and sort of broke it out for you, broken it into the different categories, image management, video management, the legacy NetStorage, cloudlets, apps, et cetera. There's a number of things going on underneath that business, some of which we are transferring some of that business to compute partners of ours in exchange for large commitments back on the compute side and then we go to market with those particular partners. So that's going to start to come off over time, say, over the next 12 to 18 months. Legacy NetStorage, we have a legacy platform. We had disclosed that number of around \$50 million on an annualized basis. We've got a new storage platform in the Linode and compute part of the business in the CIS business. So we're going to be end of life in that business, and that business will hopefully migrate over to CIS. And as it does, we'll let you know. So there's -- we're not expecting a lot of growth. It is still growing. It's growing at 3% to 4%, but we're expecting that some of that revenue to decline over time, just in line with what we have said in the past.

Frank Garrett Louthan: So that amount that you're sending over to partners, can you quantify that? What is the total amount of that, that's set to be transferred?

Edward J. McGowan: Yes. So we haven't disclosed that. It's not overly significant. It's a smaller

percentage of that total of the roughly \$100 million.

Operator: The next question comes from Jackson Ader with KeyBanc Capital Markets.

Jackson Edmund Ader: I wanted to just follow up on two things regarding those large CIS contracts. Ed, you mentioned a couple of times, it kind of depends on when the customer moves the application over. I'm just curious like how much visibility do you actually have, or maybe control do you have in the movement of those applications? Are they waiting on Akamai to ready anything to do anything? Or is it really all in the customers' court?

Edward J. McGowan: Yes, it really -- it depends on the particular customer. For example, with one of the larger contracts that we signed, there was a particular application that they had planned to move later in the year that was dependent on us building out some capacity. So as you think about my prepared remarks, we talked about adding some capacity in a location that wasn't in our initial plans to build, but we did build for that. So there was something that we did have to do. With other customers, generally, there's a period of time where they're running a proof of concept. Oftentimes, they'll have their own windows in which they want to move things. It could be a moratorium on their own end where they don't want to move a particular application during a particular busy time, et cetera. So it really does depend. So I'd sort of break it out this way. There were some things that we have to do and we're on schedule to perform all of our obligations and then the rest is really just up to the customer. We do have a lot of communication back and forth with the customer and have a pretty good line of sight, but there's no guarantee that a customer is going to move exactly when you say they will. The good news is we're very confident with the overall size of the contract, and we think these contracts have upside to them. It's just really a question of exactly what month we're going to start to recognize revenue.

Jackson Edmund Ader: Got it. Okay. And then a quick follow-up. You mentioned how, I think, you're going to make some investments, maybe on the go-to-market side to try and drive a little bit more of the CIS contracts. Curious what the pipeline looks like heading into the second half for those.

Edward J. McGowan: You're talking about the pipeline for CIS or just the pipeline in general?

Jackson Edmund Ader: For CIS specifically, but if you want to answer in general too, that would be great.

Edward J. McGowan: Yes, sure. Yes. So the pipeline for CIS is growing, and it's -- we're seeing a couple of different things there. One, we're seeing participation from all across different verticals and different geographies, which is good. And we are seeing some of our larger customers coming back with newer applications. So a little bit of the existing customer growth as well as a lot of new logo growth. And also, the size of some of these deals are larger than what we typically see in our security and our delivery business, which is good as well. So I'd say it's a very healthy pipeline and continues to grow. And just across the business, I'd say, it's fairly normal in terms of what we're seeing from a pipeline perspective. But the only callout that I would make is API security, in particular, is extremely strong. We're seeing very, very healthy growth in API security and a lot of demand for API security, especially with our web application firewall customers. It's a very natural upsell motion. So we're starting to see that pipeline grow significantly and a lot of deals come in as a result as well.

Operator: The next question comes from Jonathan Ho with William Blair & Company.

Jonathan Frank Ho: I wanted to follow up on that last comment around the security business. Can you maybe speak to what's driving the demand for both API and micro segmentation and security? And maybe why are we not seeing stronger security revenue growth? I know there's some legacy security components that are tied to delivery. But just wanted to maybe parse this a little bit and help us understand how the other 2 segments are performing.

F. Thomson Leighton: Yes. There's a lot of greenfield in both API security and micro segmentation. And customers are now realizing they need to have security solutions there. Most major enterprises literally have thousands of APIs exposed, and they don't have a good handle on what they are and what the vulnerabilities are. And that's what we provide, the visibility and also the security. And we have the market-leading solution to do that. And so there is a lot of demand. The same thing for micro segmentation and in some sense, even more important. The attack rates have gone up, the successful penetrations have gone up quite a bit. The damage from ransomware, as we talked about on the call, is extraordinary, incredibly expensive. And again, we've got the market-leading solution with Guardicore. And so we are seeing very strong demand there and strong growth. And off a nontrivial number, we're

looking at 30% to 35% ARR growth coming off over \$0.25 billion ending last year. And so yes, good reasons for the demand. And of course, if you think about the impact of Gen AI, one of the sort of bad impacts in general is that it really aids the attackers. And so I think that's part of why you're seeing so many more penetrations today. And micro segmentation is your last and best line of defense. And we've got an exceptional track record of protecting our customers there. And so I think that's why you're seeing the growth. Now those are decent-sized products now growing rapidly, but the overall security number running now at about \$2.2 billion has a very large component from web app firewall, our Prolexic DDoS solution, bot management. WAF and the scrubbing solutions have been out there for a while. They are growing but at a slower rate. And so you have a slower rate of growth on a good-sized chunk of the \$2.2 billion. And so that's why you don't see security as a whole growing at 20% or 30%. It's growing in double digits, but we're looking more like 10% for now. Now as you see API security and micro segmentation get bigger, then that 30% plus growth rate has more of an impact on the whole number.

Jonathan Frank Ho: Great. And maybe just as a follow-up. With your AI commentary, what kind of opportunity are you seeing there? And how do your solutions maybe compare with some of your major competitors that are really focusing on AI security and infrastructure?

F. Thomson Leighton: Yes. So we have a leading capability, very early days, of course, for AI firewall. Now of course, the first thing, there's a lot of new applications out there, which need regular security protection, API security and web app firewall. And so that's helping certainly the AI security business. But a firewall -- AI, in particular, needs extra firewall capabilities to keep adversaries from successful prompt injection attacks to keep the AI from doing something that it's not supposed to do. And so we've developed a very compelling capability there, just released, it's very early to market and very good interest, strong dozens of proofs of concept underway now and very positive customer feedback. And so it's really kind of -- it's unique in the marketplace to protect the customer-facing, the user-facing AI application against those kinds of attacks.

Operator: The next question comes from Sanjit Singh with Morgan Stanley.

Jonathan Eisenson: This is Jon Eisenson on for Sanjit. Great to see the solid results this quarter. And sorry if I missed this, but can you talk about the -- how much Edgio contributed to your revenue in the quarter and how that's tracking relative to the \$85 million to \$105 million range you gave previously?

Edward J. McGowan: Yes, this is Ed. So we -- it gets a lot harder to track the exact contribution from Edgio just given that there's a lot of customer overlap. So as you have some of your larger customers that are growing, we saw a great traffic growth in video and software download, which drove upside in traffic. Hard to say how much of that is related to Edgio versus what's related to Akamai. But I would say, in general, the Edgio acquisition is tracking just as we had hoped. And obviously, just a category of overall delivery is doing better. So you could probably assume we're doing a little bit better kind of on the higher end of that range, perhaps. But we're also starting to see some upsell of some of the new customer logos that we acquired as well. So I would say the thesis that we had in doing that acquisition is playing out just like we had hoped. We are seeing better trends in the industry, as Tom mentioned, both with pricing and with traffic growth. So again, I don't have an exact number for you because it gets very hard to track the exact number, but I'd say it's tracking along just as we had hoped, maybe even a little bit better.

Operator: The next question comes from Jeff Randy with Craig Hallum.

Daniel Uriah Hibshman: This is Daniel Hibshman on for Jeff Van Rhee. Just on the delivery, another great quarter and another question on that. Just to set the stage, I think on delivery, we haven't had a sequential growth quarter, other than, obviously, Q4s show growth seasonally. But we haven't had outside of Q4s, a sequential growth quarter since, as I see, Q2 2020. So now Q1 '25, Q2 '25, we had 2 sequential growth quarters, really great to see that trajectory, very, very different from what we've seen for years. I'm trying to understand a little bit better. I mean, I assume on Q1 25, you have a full quarter of Edgio. So that's the driver. But for this quarter, is there anything about Edgio leading into Q2 inorganically that's benefiting the quarter? I mean anything in terms of the market landscape in really a more significant way to call out. Or is there something onetime about what we're seeing here?

Edward J. McGowan: Yes. So I'd say it's a couple of things. One, it's not an Edgio onetime item or anything like that because you're correct, we migrated that traffic very, very quickly. So that was one of

the benefits of that. We were able to migrate that over very, very quickly in the first quarter actually by January or mid-January, we were done. So you don't have any sort of inorganic contribution per se related to Edgio. Really, the -- if I look at the traffic growth, that was surprising to us. It was higher than expected and not quite back to what we used to see sort of pre-pandemic, but much healthier traffic growth. And it was across a couple of different verticals. And I called out software downloaded video. And video is the biggest category of traffic. So that was good to see. And then we do track a pricing metric where we look at our overall pricing as a whole, looking at our traffic revenue over our traffic, and that has continued to moderate. It's still declining, as Tom mentioned, but it's not declining as rapidly as it has. And those are the 2 ingredients you need for a healthier delivery business. So it could be just the industry in general is going through a better time in terms of popularity of content, that sort of thing. There is a little bit less competition out there now, obviously. But I'd say it's more of a healthier market than we've seen in the last, say, year or 2.

Operator: The next question comes from Rudy Kessinger with D.A. Davidson.

Andres Bernabe Miranda Lopez: This is Andres Miranda for Rudy. I just have a quick one. What would have been compute revenue growth if we adjust for the headwind from the legacy compute revenue that you guys transfer to partners? Is that something you can quantify for this quarter?

Edward J. McGowan: Yes. So it wouldn't make a significant difference because if you look at the -- just in aggregate, we broke that revenue out for you at the end of the year. It's down slightly. So it would have a very minimal impact.

Operator: This concludes our question-and-answer session. The conference now has concluded. Thank you for attending today's presentation. You may now disconnect. Thank you.