EDS Analytics Platform

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Idea to Insight - Spotting Inflections and Drivers on the fly

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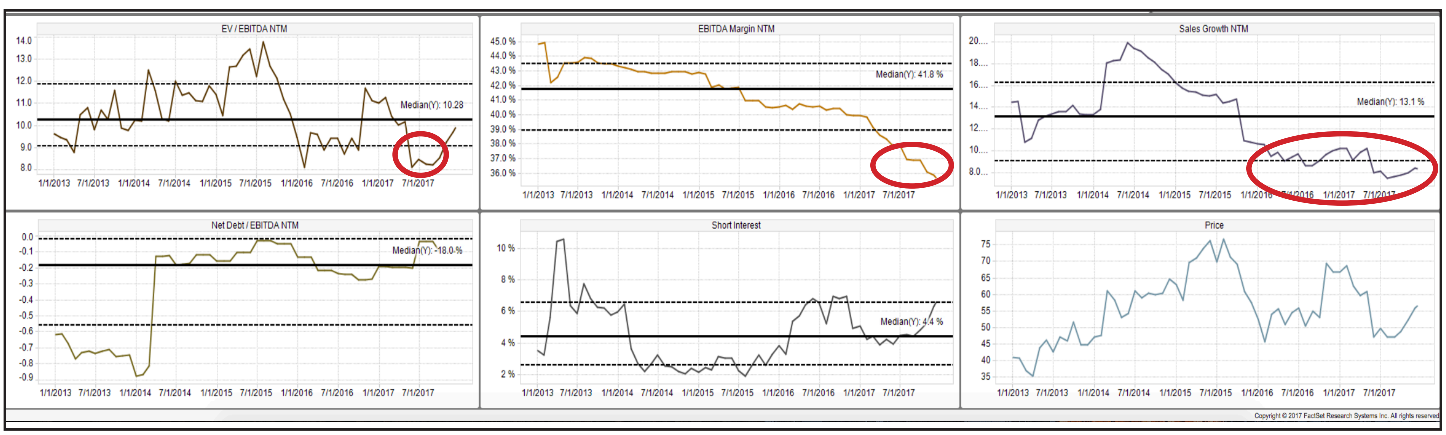
Case Study on Akamai Technologies (AKAM)

Akamai has been a volatile stock over the past 5 years, both creating and destroying wealth for many investors. However, given its early entry as a leading Internet company, it has maintained strong margins for many years, peaking at over 40%, on sales growth in the double-digits. Over the past 3 years, though, margins and growth have been on a steady march downward, with stock under-performance and volatility following growth. One of the strengths of EDS, given our platform was born out of the buyside, is the ability to **spot developing "change" and quickly put the upside or downside in context**, including whether others are starting to notice the same "change". In October, AKAM was upgraded by Guggenheim, and we wanted to quickly see if additional work on Akamai was warranted.

AKAMAI FUNDAMENTAL TIME-SERIES ANALYSIS



In Figure 1. At the time of the upgrade, the AKAM valuation was at multi-year lows, likely meaning the investment community expected the trend of lower sales and margins to continue. However, we can clearly see sales growth has been bottoming. Now the question is....**How much should I focus on <u>sales growth</u> or is another metric more important?**

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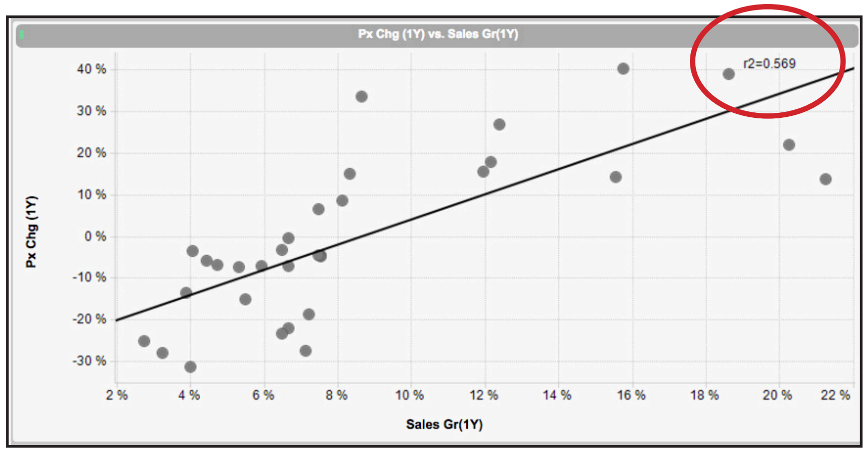
- By regressing multiple factors and time-periods against the stock price, we quickly note that sales has the best fit (57%) to the stock price. So **YES, paying attention to sales growth is important.**

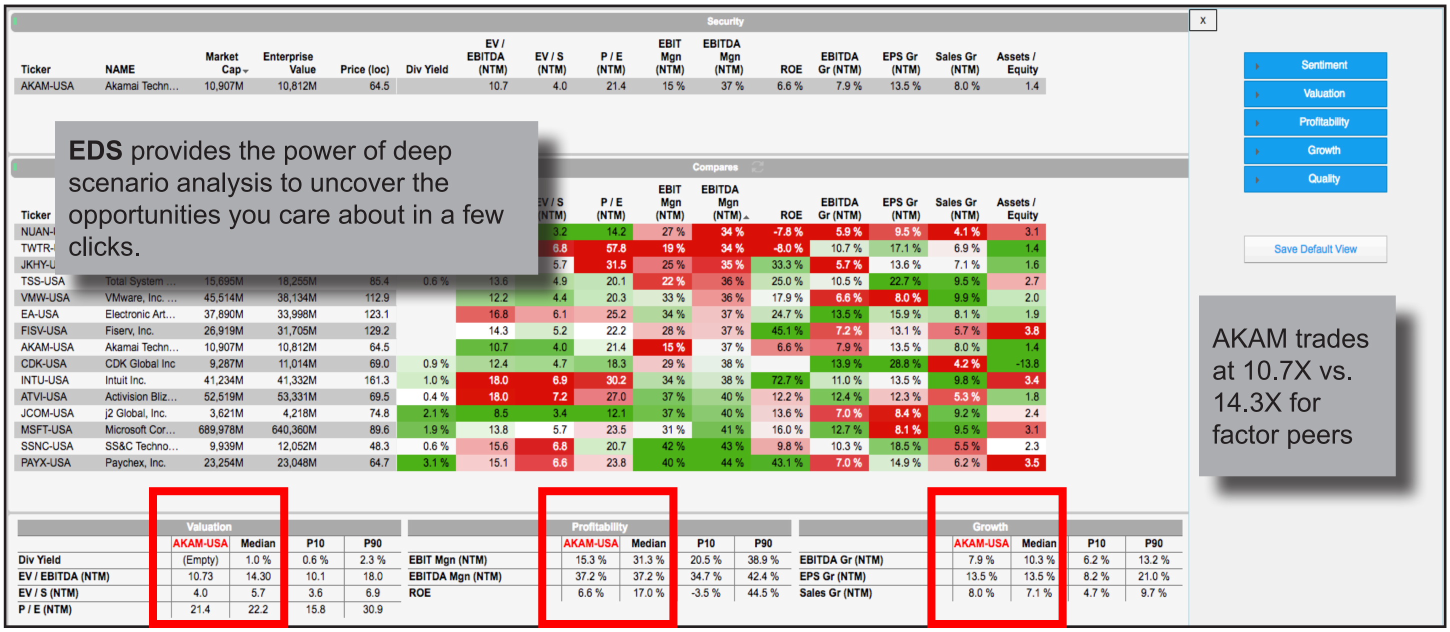


If our Working Thesis is:

- Sales are bottoming in the 8% range.
- EBITDA Margins are stable in the 36% range.

Before I spend too much time researching the idea, **What is my Upside?** After all, Akamai is now a different company, more akin to a monopoly with high-margins and low growth.

- **Question we need to answer?** How are other technology companies with high margins and low growth valued?



Security

Ticker	NAME	Market Cap	Enterprise Value	Price (loc)	Div Yield	EV / EBITDA (NTM)	EV / S (NTM)	P / E (NTM)	EBIT Mgn (NTM)	EBITDA Mgn (NTM)	ROE	EBITDA Gr (NTM)	EPS Gr (NTM)	Sales Gr (NTM)	Assets / Equity
AKAM-USA	Akamai Techn…	10,907M	10,812M	64.5		10.7	4.0	21.4	15 %	37 %	6.6 %	7.9 %	13.5 %	8.0 %	1.4

Compares

Ticker	NAME	Market Cap	Enterprise Value	Price (loc)	Div Yield	EV / EBITDA (NTM)	EV / S (NTM)	P / E (NTM)	EBIT Mgn (NTM)	EBITDA Mgn (NTM)	ROE	EBITDA Gr (NTM)	EPS Gr (NTM)	Sales Gr (NTM)	Assets / Equity
NUAN-…							3.2	14.2	27 %	34 %	-7.8 %	5.9 %	9.5 %	4.1 %	3.1
TWTR-…							6.8	57.8	19 %	34 %	-8.0 %	10.7 %	17.1 %	6.9 %	1.4
JKHY-…							5.7	31.5	25 %	35 %	33.3 %	5.7 %	13.6 %	7.1 %	1.6
TSS-USA	Total System …	15,695M	18,255M	85.4	0.6 %	13.6	4.9	20.1	22 %	36 %	25.0 %	10.5 %	22.7 %	9.5 %	2.7
VMW-USA	VMware, Inc. …	45,514M	38,134M	112.9		12.2	4.4	20.3	33 %	36 %	17.9 %	6.6 %	8.0 %	9.9 %	2.0
EA-USA	Electronic Art…	37,890M	33,998M	123.1		16.8	6.1	25.2	34 %	37 %	24.7 %	13.5 %	15.9 %	8.1 %	1.9
FISV-USA	Fiserv, Inc.	26,919M	31,705M	129.2		14.3	5.2	22.2	28 %	37 %	45.1 %	7.2 %	13.1 %	5.7 %	3.8
AKAM-USA	Akamai Techn…	10,907M	10,812M	64.5		10.7	4.0	21.4	15 %	37 %	6.6 %	7.9 %	13.5 %	8.0 %	1.4
CDK-USA	CDK Global Inc	9,287M	11,014M	69.0	0.9 %	12.4	4.7	18.3	29 %	38 %		13.9 %	28.8 %	4.2 %	-13.8
INTU-USA	Intuit Inc.	41,234M	41,332M	161.3	1.0 %	18.0	6.9	30.2	34 %	38 %	72.7 %	11.0 %	13.5 %	9.8 %	3.4
ATVI-USA	Activision Bliz…	52,519M	53,331M	69.5	0.4 %	18.0	7.2	27.0	37 %	40 %	12.2 %	12.4 %	12.3 %	5.3 %	1.8
JCOM-USA	j2 Global, Inc.	3,621M	4,218M	74.8	2.1 %	8.5	3.4	12.1	37 %	40 %	13.6 %	7.0 %	8.4 %	9.2 %	2.4
MSFT-USA	Microsoft Cor…	689,978M	640,360M	89.6	1.9 %	13.8	5.7	23.5	31 %	41 %	16.0 %	12.7 %	8.1 %	9.5 %	3.1
SSNC-USA	SS&C Techno…	9,939M	12,052M	48.3	0.6 %	15.6	6.8	20.7	42 %	43 %	9.8 %	10.3 %	18.5 %	5.5 %	2.3
PAYX-USA	Paychex, Inc.	23,254M	23,048M	64.7	3.1 %	15.1	6.6	23.8	40 %	44 %	43.1 %	7.0 %	14.9 %	6.2 %	3.5

Valuation	AKAM-USA	Median	P10	P90
Div Yield	(Empty)	1.0 %	0.6 %	2.3 %
EV / EBITDA (NTM)	10.73	14.30	10.1	18.0
EV / S (NTM)	4.0	5.7	3.6	6.9
P / E (NTM)	21.4	22.2	15.8	30.9

Profitability	AKAM-USA	Median	P10	P90
EBIT Mgn (NTM)	15.3 %	31.3 %	20.5 %	38.9 %
EBITDA Mgn (NTM)	37.2 %	37.2 %	34.7 %	42.4 %
ROE	6.6 %	17.0 %	-3.5 %	44.5 %

Growth	AKAM-USA	Median	P10	P90
EBITDA Gr (NTM)	7.9 %	10.3 %	6.2 %	13.2 %
EPS Gr (NTM)	13.5 %	13.5 %	8.2 %	21.0 %
Sales Gr (NTM)	8.0 %	7.1 %	4.7 %	9.7 %

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AKAM trades at 10.7X vs. 14.3X for factor peers

Figure 2. Other technology companies, with similar margins (37%) and growth (7.1%) are valued much higher, at over 14X EV/EBITDA and 5X Sales, providing **significant upside to AKAM** if our thesis plays out.

- **Another Question that Interests us?** While the upside looks significant, we are interested if others have started to "sniff" this out....

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- Given the large disparity between the current valuation of Akamai and other similar companies, Quant funds have taken notice.....

Strategy	Investment Fund	Fund AUM	Flag
	D. E. Shaw & Co. LP	$51,487M	Decreased
	GAM International ...	$15,187M	Increased
	Highbridge Capital	$4,232M	Decreased
	Millennium	$61,125M	Increased
	Soros Fund	$4,685M	Increased
	Tudor	$2,159M	Decreased
Quant	AQR Capital Manag...	$96,175M	Increased
	Dimensional	$380,720M	Increased
	Two Sigma	$25,634M	Increased
	Winton Capital Man...	$3,710M	Initiated
Value	H2O AM LLP	$404M	Stable