

# FORTUNE

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Meeting the Net's Need for Speed

By Michael V. Copeland

*Akamai's servers and software help enhance the flow of video streams and other online data-and if that's not a high-growth business, nothing is.*

A decade ago Akamai (AKAM, \$31) was not much more than a handful of scientists at MIT trying to come up with an approach that would rid the Internet of congestion. The only glitch was that in 1998 there wasn't any congestion on the Internet. Today, of course, it all makes sense. The Internet is getting jammed as more people conduct their business, find information, or simply get entertained online. The Akamai team's foresight and the solutions they have concocted are now a business that booked \$636 million in sales in 2007, with a profit just north of \$100 million. The company, based in Cambridge, Mass., was No. 48 on our 2007 list of fastest-growing companies and is projected to break \$1 billion in revenue in 2009. Not bad for an outfit that solved a problem nobody knew we had.

As a stock, Akamai (it's pronounced AHK-uh-my and means "clever" in Hawaiian) has been a tougher story to understand. Last April shares were trading at about \$56. A combination of meeting (but not beating) expectations and speculation that marquee customer Apple might look for another partner (it didn't) or that Apple's new movie-rental service might send costs soaring (it hasn't) sent Akamai shares as low as \$25 in January.

After announcing a blowout fourth quarter in February, with a 46% revenue increase among the highlights, Akamai has been stuck in a narrow trading range around \$30. At that price, with a projected 2008 P/E of about 22 and a 2009 estimated P/E around 20, it's starting to look relatively cheap for a growth stock-and it's hard to contest that Akamai is in a growth business.

What Akamai is best known for is a network of 30,000 servers that, coupled with its custom traffic-routing algorithms, speed up the video and audio streaming from websites like MTV Networks and services like Apple's iTunes. It also serves seven of the top ten social networks, including Facebook and MySpace, helping accelerate the upload times of all those photos, videos, and other time-sucking activities. Akamai controls an estimated 60% to 70% of this "content-delivery network" market, which Thomas Weisel analyst Tim Klasell values overall at \$1.2 billion in 2008 and projects to grow to \$2.7 billion by 2011.

With high-definition video making inroads online and more applications moving to a web-based or software-as-a-service model, the potential customers Akamai can go after have expanded well beyond its traditional media and retail clients. "We are seeing a lot of growth in moving really high-value business processes online," says Akamai CEO Paul Sagan. "Checking on shipping or inventory, things that might have been handled by the

phone or a fax, is now self-service. We make sure those automated processes are fast and reliable."

In these dodgy economic times, Sagan says, it makes sense that more companies are moving bigger parts of their business online. "When companies start to really get squeezed, they recognize that their future is on the Internet," he says. "If anything, they are speeding up that transition." And whether it is putting a legacy business system online or pumping out more and more content on the web to attract online advertisers, Akamai has a solution to sell.

Today, unlike a decade ago, Akamai has competitors to fend off, with emerging technologies that promise if not a better alternative at least a cheaper one. So far, however, Akamai has remained solidly on top. "Even if we do have a funny Hawaiian name," Sagan says, "after ten years people finally seem to get what we do."