

Akamai Technologies, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
June 30, 2019

In addition to providing financial measurements based on generally accepted accounting principles in the United States of America (GAAP), Akamai provides additional financial metrics that are not prepared in accordance with GAAP (non-GAAP). Management uses non-GAAP financial measures, in addition to GAAP financial measures, to understand and compare operating results across accounting periods, for financial and operational decision making, for planning and forecasting purposes, to measure executive compensation and to evaluate Akamai's financial performance. These non-GAAP financial measures are non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per share, Adjusted EBITDA, Adjusted EBITDA margin, capital expenditures and impact of foreign currency exchange rates, as discussed below.

Management believes that these non-GAAP financial measures reflect Akamai's ongoing business in a manner that allows for meaningful comparisons and analysis of trends in the business, as they facilitate comparing financial results across accounting periods and to those of peer companies. Management also believes that these non-GAAP financial measures enable investors to evaluate Akamai's operating results and future prospects in the same manner as management. These non-GAAP financial measures may also exclude expenses and gains that may be unusual in nature, infrequent or not reflective of Akamai's ongoing operating results.

The non-GAAP financial measures do not replace the presentation of Akamai's GAAP financial results and should only be used as a supplement to, not as a substitute for, Akamai's financial results presented in accordance with GAAP. Akamai has provided a reconciliation of each non-GAAP financial measure used in its financial reporting and investor presentations to the most directly comparable GAAP financial measure. This reconciliation captioned "Reconciliation of GAAP to Non-GAAP Financial Measures" can be found on the Investor Relations section of Akamai's website.

Akamai provides forward-looking statements in the form of guidance during its quarterly earnings conference calls. This guidance is provided on a non-GAAP basis and cannot be reconciled to the closest GAAP measures without unreasonable effort because of the unpredictability of the amounts and timing of events affecting the items we exclude from non-GAAP measures. For example, stock-based compensation is unpredictable for Akamai's performance-based awards, which can fluctuate significantly based on current expectations of future achievement of performance-based targets. Amortization of intangible assets, acquisition-related costs and restructuring costs are all impacted by the timing and size of potential future actions, which are difficult to predict. In addition, from time to time, Akamai excludes certain items that occur infrequently, which are also inherently difficult to predict and estimate. It is also difficult to predict the tax effect of the items we exclude and to estimate certain discrete tax items, like the resolution of tax audits or changes to tax laws. As such, the costs that are being excluded from non-GAAP guidance are difficult to predict and a reconciliation or a range of results could lead to disclosure that would be imprecise or potentially misleading. Material changes to any one of the exclusions could have a significant effect on our guidance and future GAAP results.

Akamai's definitions of its non-GAAP financial measures are outlined below:

Non-GAAP income from operations – GAAP income from operations adjusted for the following items: amortization of acquired intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; amortization of capitalized interest expense; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to the establishment of an endowment to the Akamai Foundation; transformation costs; and other non-recurring or unusual items that may arise from time to time.

<i>(in thousands)</i>	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Income from operations	\$ 135,782	\$ 134,525	\$ 57,117	\$ 270,307	\$ 125,674
Amortization of acquired intangible assets	9,648	9,599	8,294	19,247	16,725
Stock-based compensation	48,142	45,305	47,497	93,447	92,183
Amortization of capitalized stock-based compensation and capitalized interest expense	8,050	9,233	6,597	17,283	12,860
Restructuring charges	790	6,389	266	7,179	15,174
Acquisition-related costs	524	451	500	975	1,643
Legal and stockholder matter costs	—	—	—	—	23,091
Endowment of Akamai Foundation	—	—	50,000	—	50,000
Transformation costs	1,336	4,191	—	5,527	—
Non-GAAP income from operations	<u>\$ 204,272</u>	<u>\$ 209,693</u>	<u>\$ 170,271</u>	<u>\$ 413,965</u>	<u>\$ 337,350</u>

Non-GAAP operating margin – Non-GAAP income from operations stated as a percentage of revenue.

<i>(in thousands)</i>	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue	\$ 705,074	\$ 706,508	\$ 662,759	\$ 1,411,582	\$ 1,331,483
Non-GAAP income from operations	204,272	209,693	170,271	413,965	337,350
Non-GAAP operating margin	<u>29%</u>	<u>30%</u>	<u>26%</u>	<u>29%</u>	<u>25%</u>

Non-GAAP net income – GAAP net income adjusted for the following tax-affected items: amortization of acquired intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to the establishment of an endowment to the Akamai Foundation; transformation costs; amortization of debt discount and issuance costs; amortization of capitalized interest expense; certain gains and losses on investments; and other non-recurring or unusual items that may arise from time to time.

<i>(in thousands)</i>	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net income	\$ 113,915	\$ 107,130	\$ 43,061	\$ 221,045	\$ 96,775
Amortization of acquired intangible assets	9,648	9,599	8,294	19,247	16,725
Stock-based compensation	48,142	45,305	47,497	93,447	92,183
Amortization of capitalized stock-based compensation and capitalized interest expense	8,050	9,233	6,597	17,283	12,860
Restructuring charges	790	6,389	266	7,179	15,174
Acquisition-related costs	524	451	500	975	1,643
Legal and stockholder matter costs	—	—	—	—	23,091
Endowment of Akamai Foundation	—	—	50,000	—	50,000
Transformation costs	1,336	4,191	—	5,527	—
Amortization of debt discount and issuance costs .	8,010	11,618	8,909	19,628	13,759
Loss (gain) on investments	250	(690)	2,000	(440)	2,000
Income tax-effect of above non-GAAP adjustments and certain discrete tax items	(14,454)	(12,304)	(24,191)	(26,758)	(45,474)
Non-GAAP net income	<u>\$ 176,211</u>	<u>\$ 180,922</u>	<u>\$ 142,933</u>	<u>\$ 357,133</u>	<u>\$ 278,736</u>

Non-GAAP net income per diluted share – Non-GAAP net income divided by basic weighted average or diluted common shares outstanding. Basic weighted average shares outstanding are those used in GAAP net income per share calculations. Diluted weighted average shares outstanding are adjusted in non-GAAP per share calculations for the shares that would be delivered to Akamai pursuant to the note hedge transaction entered into in connection with the issuance of \$1,150 million of convertible senior notes due 2025. Under GAAP, shares delivered under hedge transactions are not considered offsetting shares in the fully-diluted share calculation until they are delivered. However, the company would receive a benefit from the note hedge transaction and would not allow the dilution to occur, so management believes that adjusting for this benefit provides a meaningful view of operating performance. With respect to the convertible senior notes due 2025, unless and until Akamai's weighted average stock price is greater than \$95.10, the initial conversion price, there will be no difference between GAAP and non-GAAP diluted weighted average common shares outstanding.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands, except per share data)</i>					
GAAP net income per diluted share	\$ 0.69	\$ 0.65	\$ 0.25	\$ 1.34	\$ 0.56
Amortization of acquired intangible assets.....	0.06	0.06	0.05	0.12	0.10
Stock-based compensation.....	0.29	0.27	0.28	0.57	0.54
Amortization of capitalized stock-based compensation and capitalized interest expense.....	0.05	0.06	0.04	0.10	0.07
Restructuring charges.....	—	0.04	—	0.04	0.09
Acquisition-related costs.....	—	—	—	0.01	0.01
Legal and stockholder matter costs.....	—	—	—	—	0.13
Endowment of Akamai Foundation	—	—	0.29	—	0.29
Transformation costs.....	0.01	0.03	—	0.03	—
Amortization of debt discount and issuance costs .	0.05	0.07	0.05	0.12	0.08
Loss (gain) on investments	—	—	0.01	—	0.01
Income tax effect of above non-GAAP adjustments and certain discrete tax items.....	(0.09)	(0.07)	(0.14)	(0.16)	(0.26)
Non-GAAP net income per diluted share	<u>\$ 1.07</u>	<u>\$ 1.10</u>	<u>\$ 0.83</u>	<u>\$ 2.17</u>	<u>\$ 1.62</u>
Shares used in diluted per share calculations.....	165,019	164,787	172,307	164,903	172,156

Adjusted EBITDA – GAAP net income excluding the following items: interest income; income taxes; depreciation and amortization of tangible and intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to the establishment of an endowment to the Akamai Foundation; transformation costs; foreign exchange gains and losses; interest expense; amortization of capitalized interest expense; certain gains and losses on investments; and other non-recurring or unusual items that may arise from time to time.

<i>(in thousands)</i>	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Net income.....	\$ 113,915	\$ 107,130	\$ 43,061	\$ 221,045	\$ 96,775
Interest income.....	(6,410)	(8,635)	(6,409)	(15,045)	(10,374)
Provision for income taxes.....	19,253	24,425	8,492	43,678	22,471
Depreciation and amortization.....	88,367	89,373	91,407	177,740	180,808
Amortization of capitalized stock-based compensation and capitalized interest expense.....	8,050	9,233	6,597	17,283	12,860
Amortization of acquired intangible assets.....	9,648	9,599	8,294	19,247	16,725
Stock-based compensation.....	48,142	45,305	47,497	93,447	92,183
Restructuring charges.....	790	6,389	266	7,179	15,174
Acquisition-related costs.....	524	451	500	975	1,643
Legal and stockholder matter costs.....	—	—	—	—	23,091
Endowment of Akamai Foundation.....	—	—	50,000	—	50,000
Transformation costs.....	1,336	4,191	—	5,527	—
Interest expense.....	8,446	12,116	9,204	20,562	14,054
Loss (gain) on investments.....	250	(690)	2,000	(440)	2,000
Other expense, net.....	328	179	769	507	748
Adjusted EBITDA.....	<u>\$ 292,639</u>	<u>\$ 299,066</u>	<u>\$ 261,678</u>	<u>\$ 591,705</u>	<u>\$ 518,158</u>

Adjusted EBITDA margin – Adjusted EBITDA stated as a percentage of revenue.

<i>(in thousands)</i>	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Revenue.....	\$ 705,074	\$ 706,508	\$ 662,759	\$ 1,411,582	\$ 1,331,483
Adjusted EBITDA.....	292,639	299,066	261,678	591,705	518,158
Adjusted EBITDA margin.....	<u>42%</u>	<u>42%</u>	<u>39%</u>	<u>42%</u>	<u>39%</u>

Cash operating expenses (cash opex) – GAAP operating expenses (consisting of research and development, sales and marketing, general and administrative, amortization of acquired intangible assets and restructuring charges), excluding stock-based compensation; amortization of acquired intangible assets; depreciation and amortization; acquisition-related costs; restructuring charges; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred related to the establishment of an endowment to the Akamai Foundation; transformation costs; and other non-recurring or unusual items that may arise from time to time.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
GAAP operating expenses	327,099	331,240	370,155	658,339	735,497
Less:					
Stock-based compensation	42,349	39,736	41,944	82,085	81,334
Amortization of acquired intangible assets	9,648	9,599	8,294	19,247	16,725
Depreciation and amortization	18,778	18,373	21,207	37,151	41,095
Restructuring charges	790	6,389	266	7,179	15,174
Acquisition-related costs	524	451	500	975	1,643
Legal and stockholder matter costs	—	—	—	—	23,091
Endowment of Akamai Foundation	—	—	50,000	—	50,000
Transformation costs	1,336	4,191	—	5,527	—
Cash operating expenses	<u>\$ 253,674</u>	<u>\$ 252,501</u>	<u>\$ 247,944</u>	<u>\$ 506,175</u>	<u>\$ 506,435</u>

Cash cost of revenue – GAAP cost of revenue, excluding stock-based compensation and depreciation and amortization.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
GAAP cost of revenue	\$ 242,193	\$ 240,743	\$ 235,487	\$ 482,936	\$ 470,312
Less:					
Stock-based compensation	5,793	5,569	5,553	11,362	10,849
Depreciation and amortization	77,639	80,233	76,797	157,872	152,573
Cash cost of revenue	<u>\$ 158,761</u>	<u>\$ 154,941</u>	<u>\$ 153,137</u>	<u>\$ 313,702</u>	<u>\$ 306,890</u>

Cash gross profit – Revenue less cash cost of revenue.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
Revenue	\$ 705,074	\$ 706,508	\$ 662,759	\$ 1,411,582	\$ 1,331,483
Cash cost of revenue	158,761	154,941	153,137	313,702	306,890
Cash gross profit	<u>\$ 546,313</u>	<u>\$ 551,567</u>	<u>\$ 509,622</u>	<u>\$ 1,097,880</u>	<u>\$ 1,024,593</u>

Cash gross margin – Revenue less GAAP cost of revenue, excluding stock-based compensation and depreciation and amortization, stated as a percentage of revenue.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
Revenue.....	\$ 705,074	\$ 706,508	\$ 662,759	\$ 1,411,582	\$ 1,331,483
Cash gross profit	546,313	551,567	509,622	1,097,880	1,024,593
Cash gross margin.....	<u>77%</u>	<u>78%</u>	<u>77%</u>	<u>78%</u>	<u>77%</u>

Free cash flow – Cash flows from operations less purchases of property and equipment and capitalization of internal-use software development costs included in the statements of cash flows.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
Cash provided by operating activities.....	\$ 317,929	\$ 160,850	\$ 219,681	\$ 478,779	\$ 411,691
Less:					
Purchases of property and equipment	88,406	69,752	46,716	158,158	98,300
Capitalization of internal-use software development costs	44,943	72,677	41,918	117,620	103,409
Free cash flow	<u>\$ 184,580</u>	<u>\$ 18,421</u>	<u>\$ 131,047</u>	<u>\$ 203,001</u>	<u>\$ 209,982</u>

Capital expenditures, or capex, excluding stock-based compensation and interest expense – Purchases of property and equipment and capitalization of internal-use software development costs presented on an accrual basis, which differs from the cash-basis presentation included in the statements of cash flows. The primary difference between the two is the change in purchases of property and equipment and capitalization of internal-use software development costs accrued for, but not paid, at period end.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
Purchases of property and equipment.....	\$ 99,614	\$ 80,335	\$ 52,815	\$ 179,949	\$ 79,412
Capitalization of internal-use software development costs.....	52,955	49,485	49,028	102,440	98,285
Capital expenditures, excluding stock-based compensation and interest expense.....	<u>\$ 152,569</u>	<u>\$ 129,820</u>	<u>\$ 101,843</u>	<u>\$ 282,389</u>	<u>\$ 177,697</u>

Capex as a percentage of revenue – Capital expenditures, or capex, excluding stock-based compensation and interest expense, stated as a percentage of revenue.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
Revenue.....	\$ 705,074	\$ 706,508	\$ 662,759	\$ 1,411,582	\$ 1,331,483
Capital expenditures, excluding stock-based compensation and interest expense.....	152,569	129,820	101,843	282,389	177,697
Capex as a percentage of revenue.....	<u>22%</u>	<u>18%</u>	<u>15%</u>	<u>20%</u>	<u>13%</u>

Non-GAAP depreciation – GAAP depreciation and amortization (which consists of depreciation and amortization of property and equipment, capitalized stock-based compensation, capitalized interest and acquired intangible assets), less depreciation and amortization excluded from non-GAAP results (which consists of depreciation and amortization of capitalized stock-based compensation, capitalized interest and acquired intangible assets).

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<i>(in thousands)</i>					
GAAP depreciation and amortization.....	\$ 106,065	\$ 108,205	\$ 106,298	\$ 214,270	\$ 210,393
Less:					
Capitalized stock-based compensation amortization	7,271	8,095	5,846	15,366	11,415
Capitalized interest amortization	779	1,138	751	1,917	1,445
Amortization of acquired intangible assets.....	9,648	9,599	8,294	19,247	16,725
Non-GAAP depreciation.....	<u>\$ 88,367</u>	<u>\$ 89,373</u>	<u>\$ 91,407</u>	<u>\$ 177,740</u>	<u>\$ 180,808</u>

Non-GAAP tax rate – GAAP tax rate excluding the tax effect of non-GAAP adjustments and certain discrete tax items.

	Three Months Ended			Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
GAAP tax rate.....	14%	19%	16%	16%	19%
Income tax-effect of non-GAAP adjustments and certain discrete tax items.....	2	(2)	3	—	1
Non-GAAP tax rate.....	<u>16%</u>	<u>17%</u>	<u>19%</u>	<u>16%</u>	<u>20%</u>

Impact of Foreign Currency Exchange Rate – Revenue and earnings from international operations have historically been an important contributor to Akamai's financial results. Consequently, Akamai's financial results have been impacted, and management expects they will continue to be impacted, by fluctuations in foreign currency exchange rates. For example, when the local currencies of our foreign subsidiaries weaken, our consolidated results stated in U.S. dollars are negatively impacted.

Because exchange rates are a meaningful factor in understanding period-to-period comparisons, management believes the presentation of the impact of foreign currency exchange rates on revenue and earnings enhances the understanding of our financial results and evaluation of performance in comparison to prior periods. The dollar impact of changes in foreign currency exchange rates presented is calculated by translating current period results using monthly average foreign currency exchange rates from the comparative period and comparing them to the reported amount. The percentage change at constant currency presented is calculated by comparing the prior period amounts as reported and the current period amounts translated using the same monthly average foreign currency exchange rates from the comparative period.

The non-GAAP adjustments, and Akamai's basis for excluding them from non-GAAP financial measures, are outlined below:

Amortization of acquired intangible assets – Akamai has incurred amortization of intangible assets, included in its GAAP financial statements, related to various acquisitions Akamai has made. The amount of an acquisition's purchase price allocated to intangible assets and term of its related amortization can vary significantly and are unique to each acquisition; therefore, Akamai excludes amortization of acquired intangible assets from its non-GAAP financial measures to provide investors with a consistent basis for comparing pre- and post-acquisition operating results.

Stock-based compensation and amortization of capitalized stock-based compensation – Although stock-based compensation is an important aspect of the compensation paid to Akamai's employees, the grant date fair value varies based on the stock price at the time of grant, varying valuation methodologies, subjective assumptions and the variety of award types. This makes the comparison of Akamai's current financial results to previous and future periods difficult to interpret; therefore, Akamai believes it is useful to exclude stock-based compensation and amortization of capitalized stock-based compensation from its non-GAAP financial measures in order to highlight the performance of Akamai's core business and to be consistent with the way many investors evaluate its performance and compare its operating results to peer companies.

Acquisition-related costs – Acquisition-related costs include transaction fees, advisory fees, due diligence costs and other direct costs associated with strategic activities. In addition, subsequent adjustments to Akamai's initial estimated amounts of contingent consideration and indemnification associated with specific acquisitions are included within acquisition-related costs. These amounts are impacted by the timing and size of the acquisitions. Akamai excludes acquisition-related costs from its non-GAAP financial measures to provide a useful comparison of Akamai's operating results to prior periods and to its peer companies because such amounts vary significantly based on the magnitude of the acquisition transactions and do not reflect Akamai's core operations.

Restructuring charges – Akamai has incurred restructuring charges that are included in its GAAP financial statements, primarily related to workforce reductions and estimated costs of exiting facility lease commitments. Akamai excludes these items from its non-GAAP financial measures when evaluating its continuing business performance as such items vary significantly based on the magnitude of the restructuring action and do not reflect expected future operating expenses. In addition, these charges do not necessarily provide meaningful insight into the fundamentals of current or past operations of its business.

Amortization of debt discount and issuance costs and amortization of capitalized interest expense – In May 2018, Akamai issued \$1,150 million of convertible senior notes due 2025 with a coupon interest rate of 0.125%. In February 2014, Akamai issued \$690 million of convertible senior notes due 2019 with a coupon interest rate of 0%. The imputed interest rates of these convertible senior notes were 4.26% and 3.20%, respectively. This is a result of the debt discounts recorded for the conversion features that are required to be separately accounted for as equity under GAAP, thereby reducing the carrying value of the convertible debt instruments. The debt discounts are amortized as interest expense together with the issuance costs of the debt. The interest expense excluded from Akamai's non-GAAP results is comprised of these non-cash components and is excluded from management's assessment of the company's operating performance because management believes the non-cash expense is not representative of ongoing operating performance.

Gains and losses on investments – Akamai has recorded gains and losses from the disposition, changes to fair value and impairment of certain investments. Akamai believes excluding these amounts from its non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of Akamai's core business operations and ongoing operating performance.

Legal and stockholder matter costs – Akamai has incurred losses related to the settlement of legal matters and costs from professional service providers related to a non-routine stockholder matter. Akamai believes excluding these amounts from its non-GAAP financial measures is useful to investors as the types of events giving rise to them are not representative of Akamai's core business operations.

Endowment of Akamai Foundation – During the second quarter of 2018, Akamai incurred a charge to endow the Akamai Foundation. Akamai believes excluding this amount from non-GAAP financial measures is useful to investors as this one-time expense is not representative of its core business operations.

Transformation costs – Akamai has incurred professional services fees associated with internal transformation programs designed to improve its operating margins and that are part of a planned program intended to significantly change the manner in which business is conducted. Akamai believes excluding these amounts from its non-GAAP financial measures is useful to investors as the types of events and activities giving rise to them occur infrequently and are not representative of Akamai's core business operations and ongoing operating performance.

Income tax effect of non-GAAP adjustments and certain discrete tax items – The non-GAAP adjustments described above are reported on a pre-tax basis. The income tax effect of non-GAAP adjustments is the difference between GAAP and non-GAAP income tax expense. Non-GAAP income tax expense is computed on non-GAAP pre-tax income (GAAP pre-tax income adjusted for non-GAAP adjustments) and excludes certain discrete tax items (such as recording or releasing of valuation allowances), if any. Akamai believes that applying the non-GAAP adjustments and their related income tax effect allows Akamai to highlight income attributable to its core operations.