

Akamai Technologies, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
March 31, 2024

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 financial measures). 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 diluted share, Adjusted EBITDA, Adjusted EBITDA margin, capital expenditures, non-GAAP tax rate 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 comparison of financial results across accounting periods and to those of our 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 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 the 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, such as 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; and other non-recurring or unusual items that may arise from time to time.

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Income from operations	\$ 166,728	\$ 184,786	\$ 126,638
Amortization of acquired intangible assets	21,023	16,833	15,912
Stock-based compensation	93,260	92,123	61,883
Amortization of capitalized stock-based compensation and capitalized interest expense	10,123	7,774	7,913
Restructuring charge (benefit)	544	(32)	44,723
Acquisition-related costs	172	1,189	6,768
Non-GAAP income from operations	<u>\$ 291,850</u>	<u>\$ 302,673</u>	<u>\$ 263,837</u>

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

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Revenue	\$ 986,970	\$ 995,017	\$ 915,698
Non-GAAP income from operations	291,850	302,673	263,837
Non-GAAP operating margin	<u>30 %</u>	<u>30 %</u>	<u>29 %</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; amortization of debt issuance costs; amortization of capitalized interest expense; certain gains and losses on investments; gains and losses from equity method investment; and other non-recurring or unusual items that may arise from time to time.

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Net income	\$ 175,418	\$ 161,165	\$ 97,106
Amortization of acquired intangible assets	21,023	16,833	15,912
Stock-based compensation	93,260	92,123	61,883
Amortization of capitalized stock-based compensation and capitalized interest expense	10,123	7,774	7,913
Restructuring charge (benefit)	544	(32)	44,723
Acquisition-related costs	172	1,189	6,768
Amortization of debt issuance costs	1,682	1,741	1,098
Gain on investments	—	—	(174)
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(46,727)	(18,162)	(16,915)
Non-GAAP net income	<u>\$ 255,495</u>	<u>\$ 262,631</u>	<u>\$ 218,314</u>

Non-GAAP net income per diluted share – Non-GAAP net income divided by weighted average diluted common shares outstanding. Diluted weighted average common shares outstanding are adjusted in non-GAAP per share calculations for the shares that would be delivered to Akamai pursuant to the note hedge transactions entered into in connection with the issuances of \$1,265 million of convertible senior notes due 2029 and the issuances of \$1,150 million of convertible senior notes due 2027 and 2025, respectively. Under GAAP, shares delivered under hedge transactions are not considered offsetting shares in the fully-diluted share calculation until they are delivered. However, Akamai would receive a benefit from the note hedge transactions 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 in each of 2029, 2027 and 2025, unless Akamai's weighted average stock price is greater than \$126.31, \$116.18 and \$95.10, respectively, the initial conversion prices, there will be no difference between GAAP and non-GAAP diluted weighted average common shares outstanding.

	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
<i>(in thousands, except per share data)</i>			
GAAP net income per diluted share	\$ 1.11	\$ 1.03	\$ 0.62
Adjustments to net income:			
Amortization of acquired intangible assets	0.13	0.11	0.10
Stock-based compensation	0.59	0.59	0.40
Amortization of capitalized stock-based compensation and capitalized interest expense	0.06	0.05	0.05
Restructuring charge (benefit)	—	—	0.29
Acquisition-related costs	—	0.01	0.04
Amortization of debt issuance costs	0.01	0.01	0.01
Gain on investments	—	—	—
Income tax effect of above non-GAAP adjustments and certain discrete tax items	(0.30)	(0.12)	(0.11)
Adjustment for shares	0.02	0.02	—
Non-GAAP net income per diluted share	<u>\$ 1.64</u>	<u>\$ 1.69</u>	<u>\$ 1.40</u>
Shares used in GAAP per diluted share calculations	157,466	157,024	156,135
Impact of benefit from note hedge transactions	(2,114)	(1,755)	—
Shares used in non-GAAP per diluted share calculations	<u>155,352</u>	<u>155,269</u>	<u>156,135</u>

Adjusted EBITDA – GAAP net income excluding the following items: interest and marketable securities income and losses; income taxes; depreciation and amortization of tangible and intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; foreign exchange gains and losses; interest expense; amortization of capitalized interest expense; certain gains and losses on investments; gains and losses from equity method investment; and other non-recurring or unusual items that may arise from time to time.

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Net income	\$ 175,418	\$ 161,165	\$ 97,106
Interest and marketable securities income, net	(27,841)	(23,981)	(5,292)
Provision for income taxes	12,844	35,076	29,780
Depreciation and amortization	125,337	123,314	111,887
Amortization of capitalized stock-based compensation and capitalized interest expense	10,123	7,774	7,913
Amortization of acquired intangible assets	21,023	16,833	15,912
Stock-based compensation	93,260	92,123	61,883
Restructuring charge (benefit)	544	(32)	44,723
Acquisition-related costs	172	1,189	6,768
Interest expense	6,818	6,884	2,681
Gain on investments	—	—	(174)
Other (income) expense, net	(511)	5,642	2,537
Adjusted EBITDA	<u>\$ 417,187</u>	<u>\$ 425,987</u>	<u>\$ 375,724</u>

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

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Revenue	\$ 986,970	\$ 995,017	\$ 915,698
Adjusted EBITDA	417,187	425,987	375,724
Adjusted EBITDA margin	<u>42 %</u>	<u>43 %</u>	<u>41 %</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; and other non-recurring or unusual items that may arise from time to time.

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
GAAP operating expenses	\$ 425,499	\$ 416,834	\$ 427,744
Less:			
Stock-based compensation	80,642	80,225	52,554
Amortization of acquired intangible assets	21,023	16,833	15,912
Depreciation and amortization	16,559	16,668	16,721
Amortization of capitalized stock-based compensation and interest expense not included in depreciation and amortization	211	198	150
Restructuring charge (benefit)	544	(32)	44,723
Acquisition-related costs	172	611	5,307
Cash operating expenses	<u>\$ 306,348</u>	<u>\$ 302,331</u>	<u>\$ 292,377</u>

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

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
GAAP cost of revenue	\$ 394,743	\$ 393,397	\$ 361,316
Less:			
Stock-based compensation	12,618	11,898	9,329
Depreciation and amortization	118,601	114,133	102,824
Amortization of capitalized stock-based compensation and interest expense not included in depreciation and amortization	89	89	105
Acquisition-related costs	—	578	1,461
Cash cost of revenue	<u>\$ 263,435</u>	<u>\$ 266,699</u>	<u>\$ 247,597</u>

Cash gross profit – Revenue less cash cost of revenue.

<i>(in thousands)</i>	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
Revenue	\$ 986,970	\$ 995,017	\$ 915,698
Cash cost of revenue	263,435	266,699	247,597
Cash gross profit	<u>\$ 723,535</u>	<u>\$ 728,318</u>	<u>\$ 668,101</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		
	March 31, 2024	December 31, 2023	March 31, 2023
<i>(in thousands)</i>			
Revenue	\$ 986,970	\$ 995,017	\$ 915,698
Cash gross profit	723,535	728,318	668,101
Cash gross margin	<u>73 %</u>	<u>73 %</u>	<u>73 %</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		
	March 31, 2024	December 31, 2023	March 31, 2023
<i>(in thousands)</i>			
Cash provided by operating activities	\$ 351,878	\$ 389,193	\$ 233,499
Less:			
Purchases of property and equipment	93,751	70,404	141,700
Capitalization of internal-use software development costs	80,003	63,483	80,545
Free cash flow	<u>\$ 178,124</u>	<u>\$ 255,306</u>	<u>\$ 11,254</u>

Free cash flow as a percentage of revenue – 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, stated as a percentage of revenue.

	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
<i>(in thousands)</i>			
Revenue	\$ 986,970	\$ 995,017	\$ 915,698
Free cash flow	178,124	255,306	11,254
Free cash flow as a percentage of revenue	<u>18 %</u>	<u>26 %</u>	<u>1 %</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 versus prior periods.

	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
<i>(in thousands)</i>			
Purchases of property and equipment	\$ 74,635	\$ 80,408	\$ 157,530
Capitalization of internal-use software development costs	77,491	62,355	66,264
Capital expenditures, excluding stock-based compensation and interest expense ...	<u>\$ 152,126</u>	<u>\$ 142,763</u>	<u>\$ 223,794</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		
	March 31, 2024	December 31, 2023	March 31, 2023
<i>(in thousands)</i>			
Revenue	\$ 986,970	\$ 995,017	\$ 915,698
Capital expenditures, excluding stock-based compensation and interest expense ...	152,126	142,763	223,794
Capex as a percentage of revenue	<u>15 %</u>	<u>14 %</u>	<u>24 %</u>

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

	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
<i>(in thousands)</i>			
GAAP depreciation and amortization	\$ 156,183	\$ 147,634	\$ 135,457
Less:			
Capitalized stock-based compensation amortization	9,712	7,379	7,533
Capitalized interest expense amortization	111	108	125
Amortization of acquired intangible assets	21,023	16,833	15,912
Non-GAAP depreciation	<u>\$ 125,337</u>	<u>\$ 123,314</u>	<u>\$ 111,887</u>

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

	Three Months Ended		
	March 31, 2024	December 31, 2023	March 31, 2023
GAAP tax rate	7 %	18 %	23 %
Income tax effect of non-GAAP adjustments and certain discrete tax items	12	(1)	(5)
Non-GAAP tax rate	<u>19 %</u>	<u>17 %</u>	<u>18 %</u>

Impact of foreign currency exchange rate – Revenue and earnings from international operations have historically been important contributors 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 international 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 is 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, as well as certain additional compensation costs payable to employees acquired from the Linode acquisition if employed for a certain period of time. The additional compensation cost was initiated by and determined by the seller, and is in addition to normal levels of compensation, including retention programs, offered by Akamai. Acquisition-related costs are impacted by the timing and size of the acquisitions, and Akamai excludes acquisition-related costs from its non-GAAP financial measures to provide a useful comparison of operating results to prior periods and to peer companies because such amounts vary significantly based on the magnitude of the acquisition transactions and do not reflect Akamai's core operations.

Restructuring charge – Akamai has incurred restructuring charges from programs that have significantly changed either the scope of the business undertaken by the Company or the manner in which that business is conducted. These charges include severance and related expenses for workforce reductions, impairments of long-lived assets that will no longer be used in operations (including right-of-use assets, other facility-related property and equipment and internal-use software) and termination fees for any contracts cancelled as part of these programs. 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 issuance costs and capitalized interest expense – Akamai has convertible senior notes outstanding that mature in 2029, 2027 and 2025. The issuance costs of the convertible senior notes are amortized to interest expense and are excluded from Akamai's non-GAAP results because management believes the non-cash amortization 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 these gains and losses are not representative of Akamai's core business operations and ongoing operating performance.

Gains and losses from equity method investment – Akamai records income or losses on its share of earnings and losses from its equity method investment, and any gains from returns of investments or impairments. Akamai excludes such income and losses because it does not have direct control over the operations of the investment and the related income and losses are not representative of its core business operations.

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 the impact of intercompany sales of intellectual property related to acquisitions), 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.