

Akamai Technologies, Inc.
Reconciliation of GAAP to Non-GAAP Financial Measures
March 31, 2018

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 other activity related to divestiture of a business; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred with respect to Akamai's internal FCPA investigation; and other non-recurring or unusual items that may arise from time to time.

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Income from operations	\$ 68,557	\$ 32,109	\$ 105,334
Amortization of acquired intangible assets	8,431	7,829	7,569
Stock-based compensation	44,686	42,205	38,986
Amortization of capitalized stock-based compensation and capitalized interest expense	6,263	5,750	3,911
Restructuring charges	14,908	51,581	—
Acquisition-related costs (benefits)	1,143	19,995	(208)
Legal and stockholder matter costs	23,091	—	—
Non-GAAP income from operations	<u>\$ 167,079</u>	<u>\$ 159,469</u>	<u>\$ 155,592</u>

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

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Revenue	\$ 668,724	\$ 658,470	\$ 600,293
Non-GAAP income from operations	167,079	159,469	155,592
Non-GAAP operating margin	<u>25%</u>	<u>24%</u>	<u>26%</u>

Non-GAAP net income – GAAP net income adjusted for the following tax-effected items: amortization of acquired intangible assets; stock-based compensation; amortization of capitalized stock-based compensation; acquisition-related costs; restructuring charges; gains and other activity related to divestiture of a business; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred with respect to Akamai's internal FCPA investigation; loss on early extinguishment of debt; 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.

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Net income.....	\$ 53,714	\$ 27,520	\$ 74,583
Amortization of acquired intangible assets.....	8,431	7,829	7,569
Stock-based compensation.....	44,686	42,205	38,986
Amortization of capitalized stock-based compensation and capitalized interest expense	6,263	5,750	3,911
Restructuring charges	14,908	51,581	—
Acquisition-related costs (benefits)	1,143	19,995	(208)
Legal and stockholder matter costs.....	23,091	—	—
Amortization of debt discount and issuance costs.....	4,850	4,850	4,597
Gain on investments	—	(450)	—
Income tax-effect of above non-GAAP adjustments and certain discrete tax items	(21,283)	(38,574)	(15,467)
Non-GAAP net income.....	<u>\$ 135,803</u>	<u>\$ 120,706</u>	<u>\$ 113,971</u>

Non-GAAP net income per diluted share – Non-GAAP net income divided by 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 \$690 million of convertible senior notes due 2019. 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. Unless and until Akamai's weighted average stock price is greater than \$89.56, the initial conversion price, there will be no difference between GAAP and non-GAAP diluted weighted average common shares outstanding.

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
GAAP net income per diluted share	\$ 0.31	\$ 0.16	\$ 0.43
Amortization of acquired intangible assets	0.05	0.05	0.04
Stock-based compensation	0.25	0.25	0.22
Amortization of capitalized stock-based compensation and capitalized interest expense	0.04	0.03	0.02
Restructuring charges	0.09	0.30	—
Acquisition-related costs (benefits)	0.01	0.12	—
Legal and stockholder matter costs	0.13	—	—
Amortization of debt discount and issuance costs	0.03	0.03	0.03
Gain on investments	—	—	—
Income tax effect of above non-GAAP adjustments and certain discrete tax items.	(0.12)	(0.23)	(0.09)
Non-GAAP net income per diluted share	<u>\$ 0.79</u>	<u>\$ 0.71</u>	<u>\$ 0.65</u>
Shares used in diluted per share calculations	172,004	170,727	175,171

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 other activity related to divestiture of a business; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred with respect to Akamai's internal FCPA investigation; foreign exchange gains and losses; loss on early extinguishment of debt; 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.

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Net income.....	\$ 53,714	\$ 27,520	\$ 74,583
Interest income	(3,965)	(4,487)	(4,624)
Provision for income taxes	13,979	4,699	30,094
Depreciation and amortization	89,401	85,817	75,053
Amortization of capitalized stock-based compensation and capitalized interest expense	6,263	5,750	3,911
Amortization of acquired intangible assets	8,431	7,829	7,569
Stock-based compensation	44,686	42,205	38,986
Restructuring charges	14,908	51,581	—
Acquisition-related costs (benefits)	1,143	19,995	(208)
Legal and stockholder matter costs	23,091	—	—
Amortization of debt discount and issuance costs.....	4,850	4,850	4,597
Gain on investments	—	(450)	—
Other (income) expense, net.....	(21)	(23)	684
Adjusted EBITDA	<u>\$ 256,480</u>	<u>\$ 245,286</u>	<u>\$ 230,645</u>

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

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Revenue	\$ 668,724	\$ 658,470	\$ 600,293
Adjusted EBITDA	256,480	245,286	230,645
Adjusted EBITDA margin	<u>38%</u>	<u>37%</u>	<u>38%</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 other activity related to divestiture of a business; gains and losses on legal settlements; costs from professional service providers related to a non-routine stockholder matter; costs incurred with respect to Akamai's internal FCPA investigation; and other non-recurring or unusual items that may arise from time to time.

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
GAAP operating expenses.....	\$ 365,342	\$ 396,421	\$ 289,232
Less:			
Stock-based compensation.....	39,390	36,946	34,301
Amortization of acquired intangible assets.....	8,431	7,829	7,569
Depreciation and amortization.....	19,888	19,845	18,528
Restructuring charges	14,908	51,581	—
Acquisition-related costs (benefits)	1,143	19,995	(208)
Legal and stockholder matter costs.....	23,091	—	—
Cash operating expenses.....	<u>\$ 258,491</u>	<u>\$ 260,225</u>	<u>\$ 229,042</u>

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

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
GAAP cost of revenue.....	\$ 234,825	\$ 229,940	\$ 205,727
Less:.....			
Stock-based compensation.....	5,296	5,259	4,685
Depreciation and amortization.....	75,776	71,722	60,436
Cash cost of revenue.....	<u>\$ 153,753</u>	<u>\$ 152,959</u>	<u>\$ 140,606</u>

Cash gross profit – Revenue less cash cost of revenue.

	Three Months Ended		
	March 31, 2018	December 31, 2017	March 31, 2017
Revenue	\$ 668,724	\$ 658,470	\$ 600,293
Cash cost of revenue.....	153,753	152,959	140,606
Cash gross profit.....	<u>\$ 514,971</u>	<u>\$ 505,511</u>	<u>\$ 459,687</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, 2018	December 31, 2017	March 31, 2017
Revenue	\$ 668,724	\$ 658,470	\$ 600,293
Cash gross profit.....	514,971	505,511	459,687
Cash gross margin	<u>77%</u>	<u>77%</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		
	March 31, 2018	December 31, 2017	March 31, 2017
Cash provided by operating activities	\$ 192,010	\$ 197,441	\$ 142,618
Less:.....			
Purchases of property and equipment.....	51,584	68,680	45,224
Capitalization of internal-use software development costs	61,491	38,172	45,957
Free cash flow.....	<u>\$ 78,935</u>	<u>\$ 90,589</u>	<u>\$ 51,437</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		
	March 31, 2018	December 31, 2017	March 31, 2017
Purchases of property and equipment.....	\$ 26,597	\$ 50,716	\$ 56,500
Capitalization of internal-use software development costs	49,257	43,074	37,085
Capital expenditures, excluding stock-based compensation and interest expense..	<u>\$ 75,854</u>	<u>\$ 93,790</u>	<u>\$ 93,585</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, 2018	December 31, 2017	March 31, 2017
Revenue	\$ 668,724	\$ 658,470	\$ 600,293
Capital expenditures, excluding stock-based compensation and interest expense..	75,854	93,790	93,585
Capex as a percentage of revenue	<u>11%</u>	<u>14%</u>	<u>16%</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		
	March 31, 2018	December 31, 2017	March 31, 2017
GAAP depreciation and amortization.....	\$ 104,095	\$ 99,396	\$ 86,533
Less:			
Capitalized stock-based compensation amortization.....	5,569	5,029	3,471
Capitalized interest amortization.....	694	721	440
Amortization of acquired intangible assets.....	8,431	7,829	7,569
Non-GAAP depreciation	<u>\$ 89,401</u>	<u>\$ 85,817</u>	<u>\$ 75,053</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, 2018	December 31, 2017	March 31, 2017
GAAP tax rate	21%	15%	29%
Income tax-effect of non-GAAP adjustments and certain discrete tax items.....	—	11	—
Non-GAAP tax rate	<u>21%</u>	<u>26%</u>	<u>29%</u>

Impact of Foreign Currency Exchange Rates – 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 February 2014, Akamai issued \$690 million of convertible senior notes due 2019 with a coupon interest rate of 0%. The imputed interest rate of the convertible senior notes was approximately 3.2%. This is a result of the debt discount recorded for the conversion feature that is required to be separately accounted for as equity under GAAP, thereby reducing the carrying value of the convertible debt instrument. The debt discount is amortized as interest expense together with the issuance costs of the debt. All of Akamai's interest expense 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 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 occur infrequently and 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, costs from professional service providers related to a non-routine stockholder matter and costs with respect to its internal U.S. Foreign Corrupt Practices Act ("FCPA") investigation. 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.