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Akamai Sees Big Growth, Competition

By Adrienne Sanders

Akamai Technologies' Bay Area presence is starting to blaze. And if the company can prevent its biggest customers from becoming competitors, it could get even hotter.

Akamai runs the plumbing -- the data centers, servers and services -- that keeps Internet traffic flowing. The 8-year-old public company is based in Cambridge, Mass., but much of its fastest-growth is coming from bandwidth-hungry digital entertainment and media firms in the Bay Area such as Yahoo and CNET. For Apple, it runs all the storage, music downloads and content delivery for the popular iTunes store.

"That partnership wouldn't have happened without a strong Bay Area presence," said San Mateo-based John Healy, Akamai's director of digital media. "We have a team able to go on site to Apple multiple times a week."

Akamai's Bay Area headcount, nearly all of it in San Mateo, has climbed from 100 in 2005 to 250 today, after a few acquisitions, including Mountain View's Netli and San Francisco's Red Swoosh.

And it is scrambling to add another 40 here, mostly engineering and sales positions.

"We've seen absolutely phenomenal growth in the Bay Area," Healy said. The local push is part of a broader expansion at Akamai, which doubled its employee count to 1,200 in the last two-and-a-half years.

The Big Picture

Using mind-bending math equations and 20,000 far-flung servers, the company delivers 15 percent to 20 percent of all non-email traffic to web users every day. Its customers include 29 of the top 30 media and entertainment companies, most of the top social networking web sites, and more than 70 percent of the top 50 Internet retailers, which are all rushing to add video downloads, social networks and interactive games on sites, threatening to clog up the Net.



John Healy,
director of digital
media, Akamai.

For many sites, speed is crucial for survival. San Francisco-based social networking site Friendster, for example, suffered last year when users faced frustrating delays in uploading batches of photos to their pages. Akamai helped Friendster cut response time by a third.

Stories like these add fuel to Akamai's exploding growth. Led by CEO Paul Sagan, the company posted revenue of \$429 million in 2006. Revenue surged 53 percent to \$139 million in the first quarter from the same period in 2006, while profits soared 73 percent to \$50 million.

Its stock price has climbed steadily over the last five years to \$46.50. But Akamai's earlier history was turbulent. A team of MIT math and computer experts founded the company in 1999 and, following its IPO that year, watched its stock price rocket from \$26 in October to \$345 in December. But when the dot-com bubble popped, many Akamai customers disappeared as well. After co-founder Danny Lewin died on Sept. 11, 2001, aboard the flight that crashed into the North Tower of the World Trade Center, the company lost \$2.4 billion in 2001. The share price plummeted to a low of 56 cents the next year.

Back From the Brink

Akamai's resurgence isn't just based on digital media companies, many of which are still tinkering with reliable ways to make money from their online offerings.

"Until that really gets vetted out, that's going to be a limiting factor for Akamai," Healy said. The firm also serves about 20 percent of Fortune 500 companies, and is focusing heavily on corporate web sites and software that runs over the Internet.

Akamai faces competitive threats on many fronts. "The most common challenge is from do-it-yourself-ers who buy their own equipment and try to do their content delivery in-house," said IDC analyst Melanie Posey, adding that Limelight Networks is also becoming a forceful rival. She expects the Arizona-based company to move "upmarket" adding more premium services to its no-frills offerings. Limelight raised \$240 million in its IPO June 7 and watched its share price shoot up nearly 50 percent in its debut Friday. Also in the mix are outfits like San Francisco-based BitTorrent, peddling less expensive peer-to-peer technology.

And at least some hand-wringing centers on Akamai customers such as Microsoft and Yahoo, which, after spending heavily to build data centers and other infrastructure, could seek to maximize their investment by joining the content distribution market themselves. Posey calls such a scenario unlikely.

"It's like saying if you buy a \$5 million house on the beach in Malibu, you're going to turn it into a Club Med to get a better return on your investment."