Fastly, Inc. (FSLY)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>52WK H-L ($) :</td>
<td>44 - 11</td>
<td>Suitability:</td>
<td>Higher Risk</td>
<td>Q1</td>
<td>(0.25)A</td>
<td>(0.06)A</td>
<td></td>
</tr>
<tr>
<td>Market Cap (mil):</td>
<td>4,221</td>
<td>Price Target ($) :</td>
<td>35</td>
<td>Q2</td>
<td>(0.16)A</td>
<td>(0.01)E</td>
<td></td>
</tr>
<tr>
<td>Shares Out (mil):</td>
<td>95.4</td>
<td>L-Term Rev. Gr Rate Est:</td>
<td>30%</td>
<td>Q3</td>
<td>(0.09)A</td>
<td>(0.04)E</td>
<td></td>
</tr>
<tr>
<td>Float (mil):</td>
<td>64.4</td>
<td>L-Term EPS Gr Rate Est:</td>
<td>10.8%</td>
<td>Q4</td>
<td>(0.10)A</td>
<td>(0.03)E</td>
<td></td>
</tr>
<tr>
<td>Avg. Daily Vol (mil):</td>
<td>3.05</td>
<td>Debt/Cap:</td>
<td>0.8%</td>
<td>Total</td>
<td>(0.49)A</td>
<td>(0.14)E</td>
<td>(0.08)E</td>
</tr>
<tr>
<td>Dividend ($) :</td>
<td>0.00</td>
<td>ROE:</td>
<td>0.0%</td>
<td>FY P/E</td>
<td>NM</td>
<td>NM</td>
<td>NM</td>
</tr>
<tr>
<td>Yield (%):</td>
<td>0.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Headquartered
San Francisco, CA
IPO/Founded
2019/2011

Management

Joshua Bixby
CEO and Director
Adriel Lares
CFO

Company Description
Fastly is a software-centric content deliver network (CDN) enabling companies to deliver digital content from the edge of the Internet.

Revenue Profile

Source: Company Data and Baird & Co. Estimates

Competition
Fastly competes with other CDNs like Akamai, Cloudflare, Limelight Networks, Level 3, EdgeCast, Amazon CloudFront, and others.

Quick Summary
We rate the stock Outperform driven by:

- **Strong revenue growth.** Revenue grew 47.1% in 2017, 37.8% in 2018 and 38.7% in 2019, with strong forecast growth driven by ongoing OTT trends, share gains and product expansion.

- **Improving profitability.** We expect losses to improve, though the company is forecast to remain unprofitable this year. The company improved its profitability guidance meaningfully this past quarter.

- **Edge compute upside.** Its Compute@Edge product appears to be well positioned in the market and could provide meaningful upside over time.

- **Software/API focus differentiates.** We view Fastly’s fully programmable network and ease of use as important competitive differentiators.

- **COVID-19 demand.** FSLY noted traffic increases across the platform driven in part by COVID-19 demands, with less than 10% of revenue exposed to hard hit areas.
Investment Thesis

Strong revenue growth. Revenue grew 47.1% in 2017, 37.8% in 2018 and 38.7% in 2019, with strong forecast growth driven by ongoing OTT trends, share gains and product expansion.

Software first model. Fastly's customized platform is built on open-source Varnish software, a platform used by over 3 million websites worldwide. Fastly's culture is software-first, run by developers for developers.

Product advantages. Due largely to its software framework, Fastly is able to offer products and features some others cannot, such as Instant Purge and computing closer to the edge.

Positioned for increasing edge/compute. Though early, we expect more compute functions to move beyond the central public clouds to the network edge, where companies like Fastly, Cloudflare and others are focused.

Risks & Caveats

Robust competition. Fastly is competing against a range of established CDN and compute/storage providers, along with other upstart CDN's targeting SMB.

Price pressure. Pricing is likely to remain under pressure for basic, non-dynamic CDN functionality. Providing higher value services and shifting to more edge compute features over time should help offset that.

Lack of profitability. We expect losses to improve, though the company is forecast to remain unprofitable this year.

Supplemental Information

FSLY is currently trading at 11.2x 2021 revenue, compared to the SaaS group at ~13x 2021 and the high-growth SaaS cohort at ~17x.

Our $35 target price is based on 9x our 2021 revenue forecast, below the SaaS group at ~13x reflecting faster growth but greater competitive intensity and lack of profitability.
Appendix - Important Disclosures and Analyst Certification

Approved on 22 May 2020 10:55EDT/ Published on 22 May 2020 11:00EDT.

Rating and Price Target History for: Fastly, Inc. (FSLY) as of 05-21-2020

2 Robert W. Baird & Co. Incorporated and/or its affiliates managed or co-managed a public offering of securities of Fastly, Inc. in the past 12 months.

3 Robert W. Baird & Co. Incorporated and/or its affiliates have received investment banking compensation from Fastly, Inc. in the past 12 months.

1 Robert W. Baird & Co. Incorporated makes a market in the securities of FSLY.

Appendix – Important Disclosures and Analyst Certification

Robert W. Baird & Co. Incorporated (“Baird”) and/or its affiliates expect to receive or intend to seek investment-banking related compensation from the company or companies mentioned in this report within the next three months. Baird may not be licensed to execute transactions in all foreign listed securities directly. Transactions in foreign listed securities may be prohibited for residents of the United States. Please contact a Baird representative for more information.

Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. Neutral (N) - Expected to perform in line with the broader U.S. equity market over the next 12 months. Underperform (U) - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: L - Lower Risk – Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. A - Average Risk – Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. H - Higher Risk – Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. S - Speculative Risk – High growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks. The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings. As of April 30, 2020, Baird U.S. Equity Research covered 724 companies, with 59% rated Outperform/Buy, 40% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 12% of Outperform/Buy-rated and 4% of Neutral/Hold-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

Analyst Compensation. Research analyst compensation is based on: (1) the correlation between the research analyst's recommendations and stock price performance; (2) ratings and direct feedback from our investing clients, our institutional and retail sales force (as applicable) and from independent rating services; (3) the research analyst's productivity, including the quality of such analyst's research and such analyst's contribution to the growth and development of our overall research effort; and (4) compliance with all of Baird's internal policies and procedures. This compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee. Research analyst compensation is derived from all revenue sources of
the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions.


**Analyst Certification**

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

**Disclaimers**

**Baird prohibits analysts from owning stock in companies they cover.**

This is not a complete analysis of every material fact regarding any company, industry or security. The opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the accuracy.

**ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST**

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws.

**Other Disclosures**

The information and rating included in this report represent the research analyst's views based on a time horizon of 12 months, as described above, unless otherwise stated. In our standard company-specific research reports, the subject company may be designated as a “Fresh Pick”, representing that the research analyst believes the company to be a high-conviction investment idea based on a subjective review of one or more fundamental or quantitative factors until an expiration date specified by the analyst but not to exceed nine months. The Fresh Pick designation and specified expiration date will be displayed in standard company-specific research reports on the company until the occurrence of the expiration date or such time as the analyst removes the Fresh Pick designation from the company in a subsequent, standard company-specific research report. The research analyst(s) named in this report may, at times and at the request of clients or their Baird representatives, provide particular investment perspectives or trading strategies based primarily on the analyst’s understanding of the individual client’s objectives. These perspectives or trading strategies generally are responsive to client inquiries and based on criteria the research analyst considers relevant to the client. As such, these perspectives and strategies may differ from the research analyst’s views contained in this report.

Baird and/or its affiliates may provide to certain clients additional or research supplemental products or services, such as outlooks, commentaries and other detailed analyses, which focus on covered stocks, companies, industries or sectors. Not all clients who receive our standard company-specific research reports are eligible to receive these additional or supplemental products or services. Baird determines in its sole discretion the clients who will receive additional or supplemental products or services, in light of various factors including the size and scope of the client relationships. These additional or supplemental products or services may feature different analytical or research techniques and information than are contained in Baird’s standard research reports. Any ratings and recommendations contained in such additional or research supplemental products are consistent with the research analyst’s ratings and recommendations contained in more broadly disseminated standard research reports. Baird disseminates its research reports to all clients simultaneously by posting such reports to Baird’s password-protected client portal, [https://bol.rwbaird.com/Login("BairdOnline")](https://bol.rwbaird.com/Login("BairdOnline")). All clients may access BairdOnline and at any time. All clients are advised to check BairdOnline for Baird’s most recent research reports.

After research reports are posted to BairdOnline, such reports may be emailed to clients, based on, among other things, client interest, coverage, stock ownership and indicated email preferences, and electronically distributed to certain third-party research aggregators, who may make such reports available to entitled clients on password-protected, third-party websites. Not all research reports posted to BairdOnline will be emailed to clients or electronically distributed to such research aggregators. To request access to Baird Online, please visit [https://bol.rwbaird.com/Login(RequestInstLogin](https://bol.rwbaird.com/Login(RequestInstLogin) or contact your Baird representative.

**Dividend Yield.** As used in this report, the term “dividend yield” refers, on a percentage basis, to the historical distributions made by the issuer relative to its current market price. Such distributions are not guaranteed, may be modified at the issuer’s discretion, may exceed operating cash flow, subsidized by borrowed funds or include a return of investment principal.

**United Kingdom (“UK”) disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.**

The contents of this report may contain an “investment recommendation”, as defined by the Market Abuse Regulation EU No 596/2014 (“MAR”). This report does not contain a “personal recommendation” or “investment advice”, as defined by the Market in Financial Instruments Directive 2014/65/EU (“MiFID”). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.