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Fastly, Inc. (FSLY)

Q4 2025 Earnings Call

CORPORATE PARTICIPANTS

Vernon P. Essi

Vice President-Investor Relations, Fastly, Inc.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Richard Wong

Chief Financial Officer, Fastly, Inc.

OTHER PARTICIPANTS

Jeff Van Rhee

Analyst, Craig-Hallum Capital Group LLC

Frank G. Louthan

Analyst, Raymond James & Associates, Inc.

Jonathan Ho

Analyst, William Blair & Co. LLC

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Rudy Kessinger

Analyst, D. A. Davidson & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fastly fourth quarter 2025 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the conference over to Vern Essi, Investor Relations at Fastly. Please go ahead.

Vernon P. Essi

Vice President-Investor Relations, Fastly, Inc.

Thank you and welcome everyone to our fourth quarter 2025 earnings conference call. We have Fastly CEO, Kip Compton; and CFO, Rich Wong with us today. The webcast of this call can be accessed through our website, fastly.com and will be archived for one year. Also, a replay will be available by dialing 800-770-2030 and referencing conference ID number 7543239 shortly after the conclusion of today's call. A copy of today's earnings press release, related financial tables and supplement, all of which are furnished in our 8-K filing today, can be found in the Investor Relations portion of Fastly's website, along with the investor presentation.

During this call, we will make forward looking statements, including statements related to the expected performance of our business, future financial results, product sales, strategy, long-term growth, and overall future prospects. These statements are subject to known and unknown risks, uncertainties and assumptions that could cause actual results to differ materially from those projected or implied during the call. For further information regarding risk factors for our business, please refer to our filings with the SEC, including our most recent Annual

Report filed on form 10-K and quarterly reports filed on Form 10-Q filed with the SEC and our fourth quarter 2025 earnings release and supplement for discussion of the factors that could cause our results to differ.

Please refer, in particular, to the sections entitled Risk Factors. We encourage you to read these documents. Also note that the forward-looking statements on this call are based on information available to us as of today. We undertake no obligation to update any forward looking statements except as required by law.

Also, during this call, we will discuss certain non-GAAP financial measures. Unless otherwise noted, all numbers we discuss today, other than revenue, will be on an adjusted non-GAAP basis. Reconciliations to the most directly comparable GAAP financial measures are provided in the earnings release and supplement on our Investor Relations website. These non-GAAP measures are not intended to be a substitute for our GAAP results. Before we begin our prepared comments, please note that during the first quarter, we will be attending the Raymond James 47th Annual Institutional Investors Conference in Orlando on March 2.

Now I'll turn the call over to Kip.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Thanks, Vern. Hi, everyone, and thank you for joining us. When I became CEO seven months ago, I shared a vision to accelerate our growth and drive towards profitability through disciplined execution. Thanks to our team's strong performance, that vision is becoming reality. Our exceptional Q4 results reflect this reality as we exceeded expectations across the board. We delivered our fourth consecutive quarter of revenue acceleration, closing out the year with record revenue of \$173 million in the fourth quarter. This represented 23% annual growth, the highest in over three years, and exceeded the top end of our guidance.

Our stronger than expected top line results drove strong incremental flow-through. This resulted in record gross margins of 64%, demonstrating the operating leverage and efficiency in our business. This enabled our operating margin and operating income to both reach all-time highs in absolute dollars and as a percentage of revenue, leading to our fourth straight quarter of positive free cash flow. Our stellar Q4 results also capped off a strong 2025, marking our first profitable fiscal year. Our teams drove this success with discipline, focus and execution, and we are excited to carry this momentum into 2026.

In the fourth quarter, network services grew 19% year-over-year, outpacing market growth. This is attributable to stronger than expected event performance and larger customers directing traffic to our platform due to their prioritization of network stability, performance and resilience. Our go-to-market motion is operating with increased rigor and clarity. At the same time, our new product launches, especially in security, have allowed us to deliver more business outcomes for our customers, enabling us to grow faster than the market.

Security revenue growth accelerated to 32% year-over-year, up from 30% in the third quarter and notching another record high. As we discussed on previous calls, we are focused on building a more comprehensive, ever growing suite of security products aligned with customer requirements. This enables a stronger security led sales motion, supplementing our well-established differentiation and performance, and better positioning Fastly to engage with customers on their critical security needs, all while providing an additional entry point into high value, long-term customer relationships.

In Q4, we continued investment in our platform strategy to drive multi-product adoption and build upon our cross-sell momentum. We are investing heavily in security and resilience, with the latter becoming top of mind for customers in recent months. These efforts drove meaningful feature launch momentum, highlighted by several

fourth quarter releases, including API inventory, enabling customers to review, catalog and manage APIs to identify ownership, prioritize proactive optimization, and accelerate incident response.

API inventory builds upon API discovery, launched in Q3 of 2025 to expand Fastly's API security and management offerings. We're proud of the remarkable progress in building out our API suite, and in the fourth quarter, Gartner Peer Insights recognized Fastly with a 2025 Customers' Choice for Cloud Web Application and API Protection. We are the only company to have earned this recognition for seven straight years. Also now available are custom dashboards and alerts. All customers across the Fastly platform can tailor at a glance insights that they need for intelligent execution, and access the actual alerts that they need to accelerate incident response.

We also launched AI Assistant in beta. This context aware in console agentic feature accelerates Fastly platform adoption by enterprise software engineering teams with step-by-step guidance and personalized recommendations. Our go-to-market team has focused on customers and verticals best aligned to our platform strength, particularly performance and resiliency. These efforts were reflected in balanced revenue growth across product lines, geographic regions, and customer segments in 2025, positioning us to drive continued growth in 2026.

Given this momentum, our go-to-market teams are focused on accelerating customer acquisition to further support our future growth. Our go-to-market focus also enabled us to accelerate upsell and cross-sell engagement, maximizing value with our largest customers. This is evidenced by several recent expansions and new customers, where the Fastly platform addressed mission critical performance and security requirements for our customers.

For example, a Fortune 500 restaurant chain recently selected the Fastly platform to secure and deliver their application traffic. By displacing a legacy provider, they simplified their architecture and reduced management overhead. This is also a case where performance mattered. After switching to Fastly, the customer experienced their best digital day on record.

A Fortune 500 home retailer expanded their use of the Fastly platform, displacing their security incumbent. After a rigorous review of our Next-Gen WAF and managed security service. In addition to a stronger security posture, the customer offloaded complex traffic control management to Fastly's platform, bringing their teams to focus on innovation.

A leading cloud, observability and security provider expanded their use of the Fastly platform to include Fastly compute as well as Fastly security portfolio. Our platform enables them to execute complex workloads and rapid product iterations while maintaining granular data protection. A leading print on-demand marketplace recently expanded its use of the Fastly platform, to include Fastly Bot Management and Fastly Compute. They required the high granularity, visibility, and control that our platform provides to manage complex traffic and security requirements.

As the internet moves into the age of agentic AI, it's clear that the edge will play a pivotal role. Our infrastructure is designed to power this edge intelligence layer, optimizing authorized AI agents and blocking abuse. As one of the leading-edge cloud providers, Fastly is well positioned to capitalize on this transition. We see AI increasingly as a tailwind for our business with increasing agentic AI traffic, AI bot management opportunities, and AI workloads running on our platform.

As we look to our 2026 guidance, we are leaning into our momentum and see continued upside in the business. Our first quarter and 2026 revenue growth guidance of 18% and 14%, respectively, reflect confidence that our business will outpace market growth while maintaining a prudent approach to longer-term visibility, especially amid greater macroeconomic and geopolitical uncertainty.

Rich will now walk through our financial results and 2026 guidance in more detail. Rich, over to you.

Richard Wong

Chief Financial Officer, Fastly, Inc.

Thank you, Kip, and thank you, everyone, for joining us today. Before diving into the financials, I want to say that I'm really excited to wrap up my second quarter at Fastly, and I'm thrilled with our results. We continue to accelerate our revenue growth momentum while demonstrating strong incremental revenue flow-through to drive profitability. This is driven by our strong focus on our go-to-market execution, our broader product portfolio, especially in security, and our fiscal discipline. In addition, we recapitalized our balance sheet to physically improve our liquidity and prepare us for a next phase of growth.

Now, onto our Q4 and year-end results. I'd like to remind you that unless otherwise stated, all financial results of my discussion are non-GAAP based. Revenue for the fourth quarter increased 23% year-over-year to \$172.6 million, coming in above the high end of our guidance range of \$159 million to \$163 million. This result was a record high for Fastly and also represented the largest sequential dollar growth in the company's history. These results were driven by balanced performance across our customer mix and expanded product platform, along with continued success in our go-to-market upsell and cross-sell motions. These drivers also contributed to accelerate revenue performance throughout 2025, and we are now at inflection point where we believe we are a strong share gainer in our markets and demonstrating consistent profit expansion to scale.

Our annual revenue was \$624 million, representing 15% growth over 2024, coming in above our original guidance range of \$575 million to \$585 million provided one year ago. In the fourth quarter, network services revenue of \$130.8 million grew 19% year-over-year. We saw healthy traffic levels in the fourth quarter due to stronger market conditions and the success of our upsell motion. Security revenue of \$35.4 million grew 32% year-over-year, comprising 21% of our total revenue. This was due to the expansion of our security portfolio over the past year, coupled with the success of our cross-sell motion. Our other products revenue of \$6.4 million grew 78% year-over-year, driven primarily by sales of our compute products.

In the fourth quarter, our top 10 customers represented 34% of revenue, a modest increase from 32% in the prior quarter. Revenue from customers outside our top 10 grew 20% year-over-year, an acceleration from 17% annual growth from our prior quarter. We were pleased to see that both cohorts accelerated our annual growth compared to the third quarter, providing balanced outperformance in the quarter. Also, no single customer accounted for more than 10% of revenue in the fourth quarter. Affiliated customers that are business units of a single company generated in aggregate at 11% in the company's revenue for the quarter.

Our fourth quarter total customer count was 3,092 customers. Our enterprise customer count, which represents customers with more than \$100,000 in annualized revenue in the quarter, was 628 customers. Given that typically over 90% of our revenue has historically been generated by our enterprise customers, we believe it is a much more meaningful metric to track our customer acquisition. For this reason, starting next quarter, when we begin reporting our 2026 results, we will no longer disclose our total customer count metric on a go-forward basis.

Our trailing 12-month net retention rate was 110%, up from 106% in the prior quarter and up from 102% in the year ago quarter. The quarter-over-quarter and year-over-year increases were primarily due to revenue increases

from our larger customers in prior quarters. Our last 12-month NRR closely follows our overall revenue growth rate trend. Our annual revenue retention rate, which we report at fiscal year-end, was 98.7% for 2025, a slight decline from 99.0% in 2024. We believe this metric is not as meaningful of an indicator to the health of our business as LTM NRR and its once a year disclosure limits its value. As such, we will no longer report this annual revenue retention rate metric and go-forward basis.

We exited the fourth quarter with record RPO of \$353.8 million, growing 55% year-over-year. The current portion of RPO was 70% of total RPO, and that balance grew 37% year-over-year. Our improved RPO is a benefiting from improved go-to-market discipline with our customer onboarding, which resulted in larger upfront commitments.

I will now turn to the rest of our financial results for the fourth quarter. Our gross margin was 64% in the fourth quarter, a record high for Fastly. Gross margin was 250 basis points above our guidance midpoint of 61.5% and up 650 basis points from 57.5% in Q4 2024. This outperformance was primarily due to gross margin flow-through on higher revenue, due to a stronger, balanced traffic mix, with customers in delivery and security.

Underscoring this impact, our incremental gross margin on a trailing basis calculation increased to 76% in the fourth quarter, up from 58% in the third quarter. Our gross margin for the 2025 full year was 60.9%, up from 58.8% in 2024 and also coming in 210 basis points above our original 2025 implied gross margin guidance of flat to 2024. This increase was due to better cost discipline and strategy in our cost of revenue, coupled with gross margin flow-through on higher revenue levels.

Operating expenses were \$89.2 million in the fourth quarter, coming in line with our guidance expectations. We are continuing our sharp focus on managing our OpEx spend while balancing our growth investments. We had an operating income of \$21.2 million in the fourth quarter, coming in better than the \$10 million midpoint of our operating guidance range of \$8 million to \$12 million. We intend to continue to drive greater leverage in our operating results as we scale our revenue. This is demonstrated by our operating margin expanding 500 basis points sequentially, from 7.3% in the third quarter to 12.3% in the fourth quarter.

In the fourth quarter, we reported a net profit of \$20.1 million, or \$0.12 per diluted share, compared to a net loss of \$2.4 million, or \$0.02 per diluted share, in Q4 2024. For the full year 2025, we reported a net profit of \$19.7 million, or \$0.13 per diluted share, compared to a net loss of \$12.1 million, or \$0.09 per basic and diluted share, in 2024. Our adjusted EBITDA was \$35 million in the fourth quarter, compared to \$11.1 million in the fourth quarter of 2024. For the full year 2025, adjusted EBITDA was \$77.4 million, compared to \$32.6 million in 2024.

Turning to the balance sheet, we ended the quarter with approximately \$362 million in cash, cash equivalents, marketable securities and investments, including those classified as long-term, a sequential increase of \$19 million over Q3 2025. In the fourth quarter, we raised \$180 million in 0% convertible notes due in 2030 that carry a 32.5% conversion premium. We also privately negotiated capped call transactions totaling \$18 million, which represent 100% conversion premium for a share price of \$23.04.

We believe these capital strategy measures significantly improve our liquidity and offers greater flexibility to manage our growth and bolster confidence in our customers and shareholders. Our cash flow from operations is positive \$22.4 million in the fourth quarter, compared to positive \$5.2 million in Q4 2024. Our free cash flow for the fourth quarter was positive \$8.6 million, representing a \$16.5 million increase from negative \$7.9 million in the Q4 2024 quarter.

For full year 2025, cash flow from operations was \$94.4 million, compared to \$16.4 million in 2024. Our free cash flow in 2025 was positive \$45.8 million, compared to negative \$35.7 million in 2024, coming in materially higher than our original guidance midpoint of negative \$15 million established one year ago. Also, this represents an \$81.6 million increase in free cash flow in 2025, underscoring our revenue outperformance and cost discipline expanding our bottom line.

As one of the world's leading distributed edge platforms, we continue to scale our global network to support Fastly's growth. We are closely monitoring supply chain dynamics, particularly regarding memory components, and have taken strategic actions to mitigate potential impact. Our software defined infrastructure is continuously improving, typically with capital requirements for expansion of legacy providers. This structural efficiency underpins our standing gross margins, positioning us to stay ahead of global traffic trends while maintaining strict capital discipline.

Our cash capital expenditures were approximately 8% of revenue in the fourth quarter, and 9% for full year 2025. This annual spend was below our 10% to 11% expectation, due to the timing of approximately \$10 million in CapEx anticipated in the fourth quarter, which will now occur in 2026. Let me take a moment to update you on our CapEx plans and strategy. For starters, two quick housekeeping points. First, in the fourth quarter, we did not deploy any prepaid capital equipment as we work down the remaining balance.

Also, our repayments on financial leases for equipment have terminated, we anticipate no further payments will occur for either of these categories for the foreseeable future. As a result, we wrapped up 2025 with a cleaner, simplified CapEx profile. Second, as a reminder, our cash capital expenditures include capitalized internal use software. To recap 2025, we spent 9% of revenue on cash CapEx, which represented approximately 3% in capitalized internal use software, 5% in purchases of infrastructure capital equipment, and 1% was in prepaid deployments.

Going forward, we will focus only on the infrastructure capital expenditures with investors and remove capitalized internal use software, which is not a meaningful indicator of our capital spend. We believe this change will more accurately represent the inherent capital costs of growing our business, and more aligns reporting to our peers. Note that our infrastructure CapEx is reported in our free cash flow bridge in our press release, and supplement as property and equipment.

For 2026, we anticipate our infrastructure capital spend will be in the range of 10% to 12% of revenue, compared to 5% in 2025. As I said a moment ago, approximately \$10 million of infrastructure CapEx would now incur in 2026 instead of the fourth quarter 2025, which equates to roughly 1.5% of annual revenue impact in 2026 instead of 2025. Normalizing this timing impact, we anticipate our 2026 infrastructure CapEx will be increasing approximately 65% over 2025, as we ramp our capacity to meet our growth objectives and perform upgrades to our fleet. This trend will be front-end loaded to ensure we have adequate equipment, given recent supply chain constraints.

I will now discuss our outlook for the first quarter and full year 2026. I would like to remind everyone again that the following statements are based on current expectations as of today, and include forward-looking statements. Actual results may differ materially, and we undertake no obligation to update these forward-looking statements in the future, except as required by law. Our revenue model is primarily based on customer consumption, which can lead to variability in our quarterly results. Our revenue guidance reflects these dynamics in our business and is based on the visibility that we have today.

Note that in January, ByteDance finalized the deal to restructure its US business so the platform can continue operating in the United States. Our guidance going forward will incorporate ByteDance revenue unless specified otherwise.

As Kip discussed, we saw revenue strength from successful upsell motions and share gains broadly across our customer base. A portion of this business was also driven by traffic strength that came in stronger than anticipated, and we are not anticipating similar seasonal strength in the first quarter. As a result, we expect revenue in the range of \$168 million to \$174 million in the first quarter, representing 18% annual growth at the midpoint.

We anticipate our gross margins for the first quarter will be 64%, plus or minus 50 basis points. As a reminder, our gross margin performance is dependent upon incremental revenue increases or declines, as demonstrated by our improving gross margin through 2025 on accelerating revenue growth.

For the first quarter, we expect a non-GAAP operating profit of \$14 million to \$18 million. We expect a non-GAAP net earnings per diluted share of \$0.07 to \$0.10. Note that for the first quarter, fully diluted share count for positive EPS will be approximately 175 million shares. As Kip mentioned, our 2026 guidance reflects confidence that our business will outpace market growth, while maintaining prudence on our longer term visibility amid greater macroeconomic and geopolitical uncertainty.

For calendar year 2026, we expect our revenue to be in the range of \$700 million to \$720 million, reflecting annual growth of 14% at the midpoint. We anticipate our 2026 gross margins will be 63%, plus or minus 50 basis points. We expect our non-GAAP operating profit to be in the range of \$50 million to \$60 million, reflecting an operating margin of 8% at the midpoint or doubling in our profitability compared to 2025 operating margin at 4%.

We expect our non-GAAP net earnings per diluted share to be in the range of \$0.23 to \$0.29, and we expect free cash flow to be in the range of \$40 million to \$50 million. And finally, as I mentioned earlier, we anticipate our infrastructure CapEx to be in the range of 10% to 12% of revenue for the full year.

Before we open the line for questions, we would like to thank you for your interest and your support in Fastly. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jeff Van Rhee with Craig-Hallum. Please go ahead.

Jeff Van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

Great, thanks. Congrats, guys. Wow. Great numbers. Just a couple of questions. First, maybe, Kip, you talked about AI. Can you just expand on that a bit what are you seeing at the edge right now agentic AI? I mean, I don't know, put some numbers on it, but just what are you seeing so far?

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Thanks. No, we're seeing a lot with respect to AI on our platform and it really breaks into a number of categories. First of all, just we're seeing an increase in traffic related to agents. I think in the past it's been called machine-to-machine. And if you've used AI tools, I think you would appreciate that they often check a lot more websites, for instance, than you might.

And that's more traffic and all of that traffic is processed through the Fastly network for our Fastly customers. So, we're seeing increased activity there and a quarter or two ago, we actually published a report outlining the statistics on that and actually going into which models we're seeing the most traffic from. It's an interesting report on our website with lots of numbers. We're also seeing AI workloads on our platform, and I can take a number of different forms. We've talked in the past about a use case story and extremely large training data set.

We also have customers using our Compute@Edge for inference and other AI related tasks. And then, maybe a third example of where we're seeing AI as a tailwind for our business is AI specific offers. So, I'm thinking of our AI bot mitigation where we're processing all of that traffic for our customers. It's creating opportunities for us to help manage crawlers and other AI bots to ensure that the right ones get through, because our customers want to be relevant in the AI world, but block the ones that are harmful.

So, we're seeing across the board in a number of different ways AI influencing a business in a very positive way. And we think the edge will be very important for AI going forward.

Jeff Van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

Got it. On the traffic routing, I think you called out you saw some very strong traffic flows as customers optimized or are optimizing their traffic and selected you based on performance. Just what drove the widening of the gap in respect to performance between you and the peers to attract more traffic this quarter versus maybe in the past?

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, it's a great question. I mean, we've maintained a performance edge. It's the namesake of our company, it's something our teams take very seriously. I think, recent events in the industry that is called more attention to the value of resiliency in an edge platform. And we're very serious about that and have taken a number of

architectural steps that we think enable us to deliver a more resilient platform. And I think some customers have directed traffic our way because of that.

Jeff Van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

That's helpful. Last one for me and I'll let somebody else jump on. The RPOs, just obviously explosive. I think last quarter you called on an eight-figure customer. But I'm just curious, if I look at the 12-month RPOs, to what degree is that concentrated? So, if I looked at the absolute dollars of 12-month RPO increase from Q3 to Q4, how much of that is driven by, say, maybe your three largest customers that were signed or expanded in the quarter?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah. With RPO, it's kind of broad-based across a number of our customers. What we do do is we do focus on variety of customers. Our largest enterprise, of course, historically had not wanted to make some commitments onto us. But I think that you're seeing here a change in mentality and a change in shift. So, now, the RPO that you see is kind of broad-based across our entire customer base, not just kind of [ph] smaller (00:29:06) customers.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah. I'll just add, it's been a very deliberate and intentional part of our go-to-market strategy and in the way that we framed negotiations with all of our customers and the way that we thought about pricing and discounting across our entire customer base to encourage more revenue commitments to us, to help manage or mitigate the volatility that comes from a purely utility-based pricing model. Of course, we also, in the security side, have a lot of subscription revenue, which helps with that as well. But the driving RPO growth and really just committed revenue overall is a major part of our strategy in terms of managing and mitigating volatility on the top line.

Jeff Van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

That's great. I mean, great, you can capture that increased commit. Appreciate it. Thanks, guys.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Thanks, Jeff.

Vernon P. Essi

Vice President-Investor Relations, Fastly, Inc.

A

Thanks, Jeff.

Operator: Your next question comes from the line of Frank Louthan with Raymond James. Please go ahead.

Frank G. Louthan

Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you. Can you give us an idea of what's giving you the confidence with the nice increase in the guidance there? Is it a combination of some new customers or just some better commitments from them? And what kind of gives you the confidence in the guide going into next year? Thanks.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Sure. I mean, I'll comment, and then Rich has obviously put a tremendous amount of detail thought into the guide, and he may have some additional things. I mean, I think as we look at the momentum that we've established in 2025, and if the customer contracts and relationships that we've established, and obviously the RPO number that we just discussed, as well as the overall market trends and what we're seeing coming into the new year, we're very confident in terms of how we're positioned. And so, we were able to issue guidance that reflects growth substantially above the market growth, as we continue to take market share.

The caution, and I think Rich mentioned this, and I alluded to it, too, in my commentary was, we are in an era of what I would consider elevated geopolitical and macroeconomic dynamics, and there could be, for example, situations with our international customers around the world where their purchasing patterns are affected by that. And we're also very wary of supply chain dynamics, although as we believe we have a very capital-efficient infrastructure, too early to tell, but that could play out in our favor. So, we try to take a balanced approach on that guidance. But we were able to get to those numbers, and Rich can provide more detail.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, Frank. It's a really good question. Just because, if you look at the midpoint of our guidance, that's a year-over-year increase of \$86 million at the midpoint, and that would be the largest kind of year-over-year increase that we would ever have. The reason we feel more comfortable and confident in the guidance is because we – as you know, we went through a go-to-market transformation over the past kind of 12 to 18 months. Part of that go-to-market transformation has been around getting to know our customers better, really aligning our sales teams to our customer accounts, and really being more diligent in watching kind of traffic and what they're buying and what they're doing. So, I think it's really the closeness with the customers and that go-to-market transformation that gives us that confidence.

Frank G. Louthan

Analyst, Raymond James & Associates, Inc.

Q

Is there anything about the mix of that traffic that's maybe shifted a bit maybe away from traditional media and more towards AI-type traffic or something like that? How should we think about that?

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

And I think one development that I would point to, that we discussed at some length on our last quarter call is, we have seen material cross-sell activity in our large accounts, and that cross-sell activity brings in portfolios like security and compute. And that starts to transform the relationship in many ways we believe with those customers to one that's more strategic for them and covering more use cases and that does give us some confidence. So, we see different mixes of growth and there's a seasonal factor there as well. I think you appreciate in terms of media versus non-media. But I think one bigger trend is an increasing consumption of multiple services from us by those large customers.

Frank G. Louthan

Analyst, Raymond James & Associates, Inc.

Q

Great. Very helpful. Thank you.

Vernon P. Essi

Vice President-Investor Relations, Fastly, Inc.

Thanks, Frank.

A

Operator: Your next question comes from the line of Jonathan Ho with William Blair. Please go ahead.

Jonathan Ho

Analyst, William Blair & Co. LLC

Hi. Good afternoon, and let me congratulate you on quite an impressive quarter. Just wanted to maybe just build on sort of the AI question again. Can you help us understand, just given how early we are in agentic adoption, like, what are some of the indications that you're getting from your customers in terms of that rate of growth and what that could look like in 2026?

Q

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Sure. Good. Appreciate the question. We can see the rate of growth in the telemetry coming off of our infrastructure. And we can tell, generally speaking, when it's an agentic request versus a traditional user on a browser, for instance. So, we can see that traffic growing, each quarter and that is driving volume on our platform. We can also see in the conversations we have with our customers, particularly with our media customers. We have some of the most sophisticated media companies in the world as our customers, and this is very top of mind topic for them.

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And what I can share is, that discussion has shifted from perhaps last summer, how do you block it to a much more nuanced and sophisticated conversation now about, how do you optimize for it? We want to be relevant, but we want to manage how this works. We want to be able to enforce agreements with people that the media companies have agreed with. So, we've adapted our approach there and we have, as I mentioned earlier, our AI bot mitigation technology, but we also have the – we were the first in the industry to support a new protocol called RSL, or Really Simple Licensing.

That was an industry developed protocol to essentially enforce content rights agreements related to AI models. And so, we're taking a industry-wide approach with our large sophisticated customers to manage this complex problem. And I appreciate your point that it's very early. We see it that way as well. And we're staying close to our customers and understanding how we can solve their problems. In many cases, working with them as what we call with – as we call design partners for our new products in this area.

Jonathan Ho

Analyst, William Blair & Co. LLC

Got it, got it. And then, just in terms of the CapEx, I appreciate the additional disclosure and sort of the alignment with other industry players as well. When you talked a little bit about sort of higher costs and potentially shortages in terms of supplies, can you help us understand how much of that increase in CapEx is maybe going to be eaten up by higher component costs as opposed to just pure capacity addition? Thank you.

Q

Richard Wong

Chief Financial Officer, Fastly, Inc.

Yeah, I would say, the increase in CapEx, it's going to be both of it, right. It's going to be, we do need more CapEx because of the growth that we're seeing. We saw this in Q4 and so, at the last two, three earnings call, we

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did talk about raising our CapEx spend to 10% to 11%. What you're seeing here is a function of both component prices going up. And so, in some cases, especially with memory, we're seeing potentially 25% to 75% increases year-on-year on that pricing. So, you take the price increase and you take the additional upside in revenue that we're putting here and it drives the CapEx increase year-on-year.

Jonathan Ho

Analyst, William Blair & Co. LLC

Thank you.

Q

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

And I would note the 25% to 75% – Rich, you can correct me if I'm wrong, is on the memory component itself. So, not the overall unit cost of infrastructure for us for instance.

A

Richard Wong

Chief Financial Officer, Fastly, Inc.

That's right.

A

Vernon P. Essi

Vice President-Investor Relations, Fastly, Inc.

Thank you.

A

Operator: Your next question comes from the line of Fatima Boolani with Citi. Please go ahead.

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

Thank you very much for taking my questions. Two for Rich – sorry, both of you actually. I wanted to zero in on the network services strength you called out, that is the fourth quarter of acceleration in that business. You identified a lot of quantity and volume level inputs. I wanted to understand and have you help us with, what are some of the more durable inputs to traffic growth?

Q

And then also, relatedly, on the pricing front, I mean, all of this incremental growth is coming in at very incrementally impressive margins and unit economics. I was hoping you could share a little bit around the pricing side of the equation that allowing that is allowing you to deliver a lot more of this traffic, a lot more profitable?

Richard Wong

Chief Financial Officer, Fastly, Inc.

Yeah. So, I think when we look at traffic trends and what we're seeing for the year, we are still – for Q4, we're still seeing kind of in the mid-20s in terms of traffic growth. I think the traffic growth is kind of spread across the different types. And so, it's not any one particularly to call out. In terms of the price erosion, what we've seen is actually a very nice contraction on price erosion. We have historically talked about, like mid-teens price erosion. For the quarter, I think we've been very focused and very disciplined around maintaining price, really selling where performance really matters and where we really win. Our price erosion in kind of Q4 was in the mid-single digits this quarter, so definitely seeing less price erosion in the space.

A

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

And just a follow up on...

Q

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

I would note on...

A

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

Sorry. Go ahead, Kip.

Q

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

I'm sorry, I would note – I would just add to Rich's comments, but in terms of the – as you put it, very impressive profitability, we believe we have a very efficient infrastructure and the number one thing that drives our margins up is volume, as we're able to get more economies of scale. So, you're asking about things that are durable. We certainly think that's durable.

A

Richard Wong

Chief Financial Officer, Fastly, Inc.

Yeah. And Fatima, just for clarification, it was hard to hear the first part of your question and did we answer both parts of your question? We may have missed it.

A

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

Yes. It was it was very clear. It was very clear. Thank you. I appreciate that. And just to follow up for you on the security business, nice to continue to see that acceleration there. And, it does appear that these are the fruits of your own labor with respect to seeing the yield on the cross-sell motion and the rigor that you've introduced and matured and see the organization.

Q

But I was hoping you could maybe opine on how much of that momentum in the security services franchise is kind of riding on the coattails of the network services business, having accelerated. So, is there a little bit of a coupling happening whereby if we do see if maybe a deceleration on the network services side, we should expect to see maybe a little bit more of a drop off on the security services side. But I'd love to kind of understand the interplay and the coupling and the decoupling. Thank you.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Sure. I mean, we have a lot of customers who consume both network services and security from us. So, at that level, there's probably some coupling. If those customers have less demand, we might see less demand across both. I will note though that I think the primary driver has been the expansion of our security portfolio over the last year and we are now landing customers who are essentially security first customers onto the platform. And then expanding them into network services in some cases, for instance. So, there is some coupling, there is when you have a platform strategy and you have customers consuming multiple product lines, but we're seeing our security portfolio come into its own is as a demand driver for us.

A

Fatima Boolani

Analyst, Citigroup Global Markets, Inc.

Very clear. Thank you.

Q

Operator: Your next question comes from the line of Jackson Ader with KeyBanc Capital Markets. Please go ahead.

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Great. Thanks for taking our questions, guys. The first one is on the outlook for 2026. Just curious about maybe the balance of, given kind of the upside to consensus or, just how you're feeling about Momentum to this coming year. But the balance between security strength versus network strength and understanding, Fatima's question about coupling, but just give us a sense of which one of those line items really is going to be the lion's share of the growth next year?

Q

Richard Wong

Chief Financial Officer, Fastly, Inc.

Yeah. I think when we look at kind of the guidance we provided, we do believe that in all of our businesses we should be growing faster than the market. And so, when we think about network services, I think the market that we see is about 6% or 7% year-over-year growth. Our expectation fully is that we would be north of that. I would say that it's going to, from an increased perspective, you're going to see increases in both network services and security. I wouldn't say that one drives more than the other. I would say, it's going to be broad-based across security and network security. We say 12% to 13% year-over-year growth. I mean, we're going to – we will be growing north of that as well.

A

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Okay. And then actually...

[indiscernible] (00:43:16)

Q

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Got it. Rich, given that this is getting your first full year guide for on the Fastly platform, do you mind just giving us a sense for your kind of process, maybe your philosophy? Are you looking at a pipeline coverage ratio as you kind of look out. Just yeah any sense in terms of what your initial guidance philosophy might look like?

Q

Richard Wong

Chief Financial Officer, Fastly, Inc.

Yeah. So, I think we do a very robust kind of planning process when we kind of plan for 2026. And when we do do that we're looking at multiple angles. We have byproduct views, we also have perspectives around the different pods that are our sales team cylinder. We look at on a customer-by-customer basis. And so, we know from a customer-by-customer basis what our contracts are like. And we do a lot of traffic and kind of pricing and when pricing is up for renewal. So, we really build a robust model. We do look at it and say, okay, what kind of macro environment are we in. And what kind of commitments do we have from an RPO perspective.

A

And then we layer in that kind of existing customer base with our expectations around new customer lands to kind of really build our model. And then, we kind of stress test it around the macro environment around like what are the risks and opportunities that we potentially have. I think my goal on the kind of guide is to hit the numbers that we say, we're going to hit, right. I don't know, the expectation is that, for me, I'd like to just be fully transparent. This is what we think and what we will do. And so, we really go for – what do we think is going to be risk adjusted for the macro environment that we're in.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Look, I mean, that's a great answer from Rich. But I'd tell you, it's been great working with him on this guide. At one point, I think he had 18 different calibrations from his team and we're lining them up. So, I mean, I'm extremely comfortable that Rich has taken a very thorough approach here. Nobody has a crystal ball, but I'm very confident in the quality of the work that went into our guide.

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah, I was going to say, good customer-by-customer, it's – you're getting into the weeds, okay. That's good. Thank you for the process. That's what we were looking for. Thank you [indiscernible] (00:45:37).

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Well, I mean, we take it very seriously in terms of what we project into the financial community. But frankly, it's also something that helps us run the business, obviously. So, it's for this audience and the investors, obviously. But frankly, we view it as core to how we plan and build the business into the future. So, it's a core part of what Rich's team does.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

That's right. I mean, like, literally, as we build a plan, we're looking week-by-week also just on traffic patterns and we just have updated views throughout the kind of process. And so, I just think that being close to the customers is so important to Fastly. The work that they do is so important to us. And so, for us, the best thing we can do for them is to actually do the right forecast, make sure the capacity is there, and make sure that the quality of service that we provide is high.

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Q

All right. Good. So, thank you guys. Yeah.

Operator: Your next question comes from the line of Param Singh with Oppenheimer. Please go ahead.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Hi. Thanks for taking my question. I think I really wanted to focus on the security side. Obviously, you talked about good attach rates here. If you could give me some color on the current penetration of the newer products with DDoS and bot management and maybe also talk about your API capabilities here. I know you

expanded that. What's the adoption rate of API and what are some of the technical capabilities you'd like to add on the API side, especially as you talk about an evolving traffic landscape with agentic AI? Thanks.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Sure. From a security perspective, we're really proud because we do have kind of the five products. Our WAF product is kind of the one that we started with and that we had. I would say that, a large portion of our security revenues is still kind of WAF. We are very happy with the kind of traction that we are seeing with bot management and API security. We haven't broken it out yet in terms of, like, specifically between the security products where it is. But I would say that the majority of our security revenues still are world-class WAF product.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah. I would just add that some of our largest new deals are on API use cases. So, we've got – in the security business, certainly, the core business is the WAF, which is a phenomenal product and continues to grow well. But we're seeing strong interest in demand on the API side of the equation and we're excited about that because we're still, as we mentioned, building out the portfolio there. And so, there's more to come.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Q

I mean, I really wanted to maybe dive a little bit more. I know you talked about your API discovery that you expanded with. So, from a technical standpoint, where do you feel you stand now as a larger API platform that could help us across the board, not just with security but even on delivery side? And I guess, it should be more important in an agentic world, and please correct me if I'm wrong.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, absolutely. I mean, our approach to our security portfolio has been one that has agentic in mind. The features that we're building generally work, for example, for regular APIs, as well as AI APIs. And that's based on some of the work we've been doing with our customers in this area, where they don't want a separate AI capability, they want a single edge platform that addresses all of their API needs across agentic AI and traditional workloads as well. And so, I think AI bot management is an area where we made a distinction there. There are some other features, but our security portfolio is designed with AI workloads in mind, and we are seeing those workloads on the platform.

In terms of where we are, I feel like we may be about halfway through the journey. We are covering a lot of use cases and we're seeing traction that we're very pleased with on API security and API use cases more broadly on the platform. And we're actually excited about the momentum we're seeing, because, as I mentioned earlier, we're planning to bring additional capabilities in the portfolio into this space that we think will expand the addressable TAM for us further.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Q

Great. Great. And then maybe one last one, if I could. Just looking at your CapEx, I understand the incremental \$10 million. But really, if you could help me parse through what is maintenance CapEx, that 11%, 12%, especially in this higher memory environment versus what's for expanding new POPs or adding more compute capabilities

around accelerated servers. If you could just dig that out and help me understand how you are thinking about your CapEx longer term, I'd really appreciate it.

Richard Wong*Chief Financial Officer, Fastly, Inc.*

A

Yeah. So, the infrastructure CapEx we talked about, which was 10% to 12% of 2026 revenues. I would say, the majority of that CapEx is going to be for the growth CapEx and not for the maintenance and replacement side. I would say that we are continuing to invest. I think one of the areas that we are investing is going to be kind of in the APJ area. And so, we are opening up additional talks out there to support the business. And so, I would say, the vast majority of that infrastructure CapEx is not necessarily for the maintenance side, but more for the kind of growth support side.

Param Singh*Analyst, Oppenheimer & Co., Inc.*

Q

Got it. Thanks, Kip, Rich. Thank you for taking my questions.

Vernon P. Essi*Vice President-Investor Relations, Fastly, Inc.*

A

Thanks, Param.

Operator: Your next question comes from the line of Rudy Kessinger with D.A. Davidson. Please go ahead.

Rudy Kessinger*Analyst, D. A. Davidson & Co.*

Q

Hey, guys. Great. Thanks for taking my questions and congrats on the very strong results. As we look to the 2026 guidance top 10 customers percentage of revenue. Where is that estimated to fall for the year within that revenue guide?

Richard Wong*Chief Financial Officer, Fastly, Inc.*

A

Yeah. Right now – just as background for those who are on the call, right now our top 10 customers is 34% of revenues, it was up from 32%. The good news here is that, we have been investing in our top 10 as well as outside of our top 10. So, the top 10 customers grew their revenues by 30% year-over-year, whereas the non-top 10 grew 20%. Both of those were acceleration and so, we're still making big investments on both cohorts to make sure that we are looking at all of our customers in aggregate. I would say that as we go further, we are doing a few things on our go-to-market transformation.

One is that we're focusing our efforts on customers that really get the value that we want from our platform. And some of that happens to be the top 10 and I could see that top 10, staying at 34%, I could see it going up, just because they are. But I would say that, the non-top 10 growth is still going to be high and should be continue to grow as well. So, it's hard for me to say, it's going to be 34% or 32% or 36%. But I would say that we are very happy with the performance and the additional 2 percentage points in the top 10, just because those top 10 customers are still super valuable to us and very profitable to us.

Kip Compton*Chief Executive Officer & Director, Fastly, Inc.*

A

Yeah, I would add that two things that, I mean, Rich hit one at the very end there. But if you see that we grew last quarter our top 10 faster than our non-top 10 and you saw the behavior of the business in terms of profitability gross margin, et cetera. You can see that those top 10 customers are profitable business for us. We recognize the revenue concentration risk that they represent but they are profitable significant part of our business.

I think the second thing I would add is, we've historically talked about that percentage of top 10 being in the low-30s to mid-30s and thinking that that was likely to remain the case for some period of time. We don't provide that formally as part of our guidance, but I don't think our view on that has changed at this time. And as I mentioned earlier, we're excited about the cross-sell opportunities as well as the contribution to RPO that those top 10 customers can make. So, we continue to drive profitable, higher quality revenue in that cohort.

Rudy Kessinger

Analyst, D. A. Davidson & Co.

Q

Got it. And then on gross margin, obviously, very impressive trend here over the last year, getting up to 64%. But 64% in Q1, you've got the guide at 63% for the year. I understand that with some of this CapEx coming on line and some that pushed out from last year, but just how should that trend seasonally? I mean, should we see like a big step down in Q2 and then recovery throughout the year? Or just how should that trend on a quarter-to-quarter basis?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, really – actually a really good call out. I do think that, we did get the guide for Q1 gross margins to be about 64%. We will see kind of a drop into Q2 and Q3 as we have additional POPs kind of coming on the line. And then, we would again see a bump up again in Q4. And so, kind of that's the trend where Q1 and Q4 will be a bit higher in Q2, and Q3 should be a little bit of a drop.

Rudy Kessinger

Analyst, D. A. Davidson & Co.

Q

Very helpful. Thanks and congrats again.

Operator: That concludes our question-and-answer session. I will now turn the call back over to Chief Executive Officer, Kip Compton, for closing remarks.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Thank you. We believe this quarter demonstrated tangible progress in our ongoing transformation. We are committed to building the world's most powerful and flexible edge platform. We're pleased with the strong momentum we saw this quarter and our focus on building sustainable, profitable growth. I want to thank our Fastly employees for all their contributions, our customers for their trust and partnership, and investors for their continued support. Thank you for your interest in Fastly and thank you for joining us today.

Operator: Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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