



Fastly, Inc.

First Quarter 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

Maria Lukens, *Vice President, Investor Relations*

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Adriel Lares, *Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

John Waterworth (phon), *William Blair & Company*

Tim Horan, *Oppenheimer*

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Robert Majek, *Raymond James*

James Fish, *Piper Sandler*

Tyler Radke, *Citigroup*

Brad Reback, *Stifel*

PRESENTATION

Operator

Good afternoon. At this time, I would like to welcome everyone to the Fastly First Quarter 2021 Earnings Conference Call.

I would now like to turn the conference over to your host, Ms. Maria Lukens, Vice President of Investor Relations. Ma'am, please go ahead.

Maria Lukens

Hi, everyone. Thank you for joining our First Quarter 2021 Earnings call.

We have Fastly's CEO, Joshua Bixby; and CFO, Adriel Lares, with us today.

Before we start, I want to remind everyone about the usual format of our call. We published a Shareholder Letter on our Investor Relations website and with the SEC about an hour ago. Since the letter provides a lot of details, we will make some brief opening remarks and reserve the rest of the time for your questions.

During this call, we will be making forward-looking statements, including statements related to the expected performance of our business, future financial results, 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. Please take a look at our filings with the SEC, and our Q1 2021 Shareholder Letter for a discussion of the factors that could cause our results to differ. Also note that the forward-looking statements on this call are based on information available to us as of today's date. We disclaim any obligation to update any forward-looking statements except as required by law.

Also, during this call, we will discuss certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in the Shareholder Letter on our Investor Relations website. These non-GAAP measures are not intended to be a substitute for our GAAP results.

Finally, this call is being webcast and will be archived on our website shortly afterwards.

With that, I'll turn the call over to Joshua.

Joshua Bixby

Thanks, Maria. Hi, everyone, and thanks for joining us today.

We had another outstanding quarter, delivering 35% year-over-year top line growth with revenues of nearly \$85 million. We are now over a year into the pandemic, and digital transformation is showing no signs of slowing. In fact, it's accelerating. And we believe we are at the start of a new era. We are innovating and building the delivery edge computing and security products necessary to accelerate the digital capability of every organization in the world. Fastly makes your online experience everywhere around the world fast and secure.

Unlike Q2 of 2020, which was extraordinary in many ways, 2021 appears to be more in line with our historical trends. Typically, we sign new customers in Q1 and Q2, which then ramp on our platform in the latter half of the year. Historically, usage expansion on the platform is slower in Q2 as people tend to spend more time outside and less time on devices. This year, we believe this effect will be somewhat exaggerated as the world begins to reopen.

Despite the challenging year-over-year compare, we remain confident in our continued growth. If you take a long-term view, you'll note that we're existing Q1 and subsequently guiding Q2 at a CAGR of over 35% from Q1 and Q2 of 2019, which continues to exceed our expectations from the time of our IPO.

Our current guidance reflects continued growth and is more in line with our seasonal trends. Our Q2 is roughly flat with Q1, followed by an uptick in growth in the second half of the year, as indicated by our increased revenue outlook for full year 2021.

This quarter, thanks in part to the integration of Signal Sciences and the tremendous leadership and sense of urgency. We have seen from Brett, as our new Chief Revenue Officer, we saw significant cross-sell and joint selling opportunities as demonstrated by customer wins across multiple verticals. In less than two quarters since the closing of the Signal Sciences acquisition, we've made it possible for

customers to purchase Fastly and Signal Sciences' offerings on a single unified contract, simplifying the ordering process and shortening sales cycles.

Additionally, we are very pleased with the continued maturity of Compute@Edge, which continues to drive customer interest as well as produce major operational efficiencies in our product development.

Our customers have communicated to us that the key difference of the platform is our position in technologies for privacy. Privacy is core to who we are and we view it as inseparable from security. The most tangible benefit of securing the enterprise is to ensure the privacy of their customers. The intersection of edge compute, security and privacy is ripe for innovation. By making user security and privacy a core focus of our efforts, we can provide more benefits to a wider array of customers around the world.

All of these things fueled strong demand in the beginning of 2021. Our total customer count, excluding Signal Sciences, increased to 2,207, up from 2,084 in Q4 2020, and enterprise customers increased to 336, up from 324 in Q4 of 2020. We saw several customer wins across high tech, e-commerce, digital publishing, financial services, cryptocurrency and healthcare, including human security, a leading bot mitigation provider relied on by many of the internet's largest advertising platforms or enterprises, a leading provider of multilayered network switches and software-defined networking solutions and a leading automotive and insurance SaaS provider, among others.

In addition to generating new customer demand, we continue to execute on our land and expand strategy among existing customers, with average enterprise customer spend increasing to \$800,000, up from \$782,000 in the prior quarter, and another strong dollar-based net expansion rate of 139%.

We believe our Edge Cloud platform, which seamlessly combines delivery, edge computing and security, presents a tremendous market opportunity, and we will continue to invest in it to position our Company for future growth.

Before I turn it over to Adriel to go over the financials, I'd like to take a moment to address some news we shared in our press release and Shareholder Letter, that Adriel will be stepping down from his role as CFO after five years of service. Adriel will continue in his role as CFO for a transition period, during which we expect to appoint a successor, and for a period of time after as an advisor to ensure a smooth transition. On behalf of the entire Board and Management team, Adriel, you will be greatly missed, and we wish you the best of luck in your future endeavors. We're also deeply appreciative that you will remain with Fastly to help facilitate a smooth leadership transition.

Now, I'll turn it over to Adriel to go over the financials.

Adriel Lares

Thank you, Joshua. I appreciate the kind words. And good afternoon, everyone.

As Joshua mentioned, we had a strong first quarter, building off the continued demand strength in saw in 2020 as companies remain focused on their digital transformation.

Before I go through the numbers, I want to again point out, as I mentioned last quarter, that the contribution of Signal Sciences has been consolidated into our first quarter financial information. For the revenue and margin numbers I'm about to give include Signal Sciences. We have provided separate Fastly and Signal Sciences customer metrics in the Shareholder Letter this quarter. We intend to begin reporting consolidated customer metrics later in 2021.

This quarter, we generated nearly \$85 million in revenue, net of the \$1.5 million deferred revenue write-down associated with the acquisition of Signal Sciences, representing 35% year-over-year growth. We believe our Edge Cloud platform, complemented by Signal Sciences' Security offerings, provide the vast market opportunity and we will continue to invest in the business to accelerate our expansion and position ourselves for further success.

Our gross margin for the quarter reflect its focus and the additional scale in the recent acquisition of Signal Sciences. GAAP gross margin was 55.8% for the quarter, compared to 56.7% in the same quarter a year ago, which reflects investments for additional scale and the recent acquisition of Signal Sciences, among other factors. Non-GAAP gross margin, which excludes stock-based compensation and intangible amortization expenses, was 60.1% for the quarter, reflecting continued year-over-year improvement, up from 57.6% in the same quarter last year.

As we have always said, our gross margin will continue to be impacted by the timing of personnel and infrastructure investments and seasonal usage by customers on our platform, but we remain confident in our ability to deliver long-term leverage on an annual basis.

In terms of the balance sheet, we ended the quarter with \$1.1 billion in cash, restricted cash, and investments.

As a reminder, in March, we took advantage of favorable market conditions to issue 949 million, an aggregate principle amount of 0% convertible senior notes due in 2026, in a private offering. This new capital solidifies our strong financial position and provides us the flexibility to take full advantage of the opportunities ahead. As we continue to see strong demand for our Edge Cloud and Security offerings, our focus remains on innovating and investing in our platform for further growth in 2021 and beyond.

Our Q2 and full year 2021 outlook reflects our strong top line growth momentum, our strategic investments in security and cloud computing, and the incremental expense with the Signal Sciences acquisition. Consistent with prior years, we've based our revenue guidance on the visibility that we have today, and given our usage base business model, we expect to get additional visibility as the year progresses.

Beginning with the second quarter, we expect revenue in the range of \$84 million to \$87 million; non-GAAP operating loss in the range of negative \$22 million to negative \$18 million; non-GAAP net loss per share in the range of negative \$0.19 to negative \$0.16.

For the full year 2021, we've increased our revenue guidance range to \$380 million to \$390 million from \$375 million to \$380 million. We maintain non-GAAP operating loss in the range of negative \$50 million to negative \$40 million; and non-GAAP net loss per share in the range of negative \$0.44 to negative \$0.35.

Finally, before we begin Q&A, I just would say that I'm grateful to Archer for bringing me to Fastly and allowing me the privilege of shepherding Fastly from pre-IPO to a public company to one of the premier companies leading the charge to the future of the internet. I'm going to be here for a while still and I look forward to continuing to work with Joshua, Archer and the rest of the Fastly team as we keep expanding our offerings and delivering on our Edge Cloud platform.

With that, I'll turn it back to the Operator to take your questions.

Operator

Your next question is from Jonathan Ho from William Blair. Your line is open.

John Waterworth

Hi. This is John Waterworth (phon) for Jonathan. Thanks for taking my question. First off, for Adriel, (inaudible) the Company through an IPO in terms of new products, so congratulations on that and wish you best of luck in your future endeavors. For Josh, would like to ask, can you talk about some of the parameters you're looking for in a replacement?

Joshua Bixby

Sure. I mean, Adriel's going to be big shoes to fill, So we have had over the last few quarters a number of executive searches. I think one of the things that would come out is how desirable Fastly is as a place. As Adriel talked about the opportunity here is tremendous. So, certainly looking for that knowledge and expertise, somebody who's seen a much larger business. We believe, as you know, that we are poised for continued successful growth many years into the future, and as such, we want somebody who has seen that and seen that at scale. So that's really important. I think Adriel brings a really special mix as well on the cultural side. So we need someone who understands the values of Fastly and wants to live by them. We're certainly looking for someone with a lot of experience in the field.

So, we found that before, we found that with Brett, we found that with Daniel and in all of the searches we've conducted, like this one, the demand is high and people with tremendous amount of experience are interested in joining us. So, excited about the prospects of bringing someone in. But we'll certainly miss Adriel.

John Waterworth

Thank you. Appreciate the color. Would like to also a question. I'd like you to elaborate if you could on your outlook. It's pretty good explanation on how the year will progress with 2Q being more typical, flat with 1Q and then second half (inaudible). But I'm curious, since you raised your outlook overall, did any of it change in the quarter? Since first quarter met your—was within your guidance range, did anything happen in the market or have you seen anything that has made you—what's made you increase your outlook? Is it the COVID reopening, reopening from COVID that's triggering it, or anything in the marketplace that's driving that? Can you give a little more color there as to the range you're seeing here even though second quarter is expected to be somewhat flattish with first quarter?

Joshua Bixby

Sure, happy to do so and happy to have Adriel sort of add some color after. I think, this starts with our traditional business cycle and if you look at our business customers come to us, land all throughout the year, but a lot of the big ones make buying decisions in Q1 and Q2, so that into Q3 and particularly into the Q4 timeframe they're ready. Think about an e-commerce business that has a huge amount of business at the end of the year or—many of our businesses have a similar cycle.

So, as the year progresses we get more visibility into that. I think what we are seeing is robust customer acquisitions. It's really the quality of those customers that matters. We see a lot of really large opportunities. We're seeing green shoots sprout in industries that were definitely challenged by COVID. In the industries that really got a bounce from COVID, we're not seeing them give back those gains as we see things open up.

So, I think we are in this luxurious position having a worldwide global network. I've talked about this crystal ball in the past where we can look in and say, "Okay, what happens in these countries that are opening up? What happens to these services that we are all looking at and saying, hey, are these COVID bumps or are they not COVID bumps?" So I think we're seeing a true phenomenon that not only is Fastly

not stock driven and defined by COVID and a business driven and defined by COVID, but neither are most of our customers, and I think that's giving us a tremendous sense that the future is bright and as we see that we obviously present that back.

So, in terms of a general concept, the reopenings, although that's going to have an impact on Q2, as we talked about, because it's an extraordinary quarter, not just because of COVID, but also because of specific customers that are a little bit different in form than they are now. But overall, we are seeing that optimism and that's certainly—I'm glad you're picking up on that because that's certainly what we're projecting.

Adriel, anything to add to that?

Adriel Lares

Yes, thanks, Joshua. Thanks, John, for the kind words. Definitely going to miss Fastly, but I know there's still plenty ahead. But specific to the question, one of the things that I've observed is that 2021, just from a business standpoint in terms of what we're seeing in the business, beginning with sort of the act and feel like years' past and I'm putting 2020 in sort of the exception category, and really look at more of 2018 and 2019, where we were growing in the high 30s percent, but it's an 8% and 38.7%, and if I look at this past quarter, (inaudible) at 139%, with churn still sub 1%, those are sort of the makings of it. We continue to acquire customers as we get more visibility. So, basically, as we get further into the year, I could sort of see a little bit further. So, it's because of sort of that very fundamental reason why we're able to sort of raise the year as we did. And again, as we get a little bit further, at the end of Q2, we'll get a little bit more visibility beyond that.

So, always at the beginning of every calendar year we're sort of a little bit more conservative just because we are primarily a usage based model, and again, with the passage of time and with the metrics being what they are, we just get a little bit more confidence, we sort of see what our current customers' doing and to Joshua's point they're making their decisions or planning for the second half of the year. So that part is sort of familiar which is why it gives me confidence to do what we did.

John Waterworth

Okay. That's very helpful color. Thank you very much. I'll jump back into the queue.

Joshua Bixby

Thank you.

Operator

Your next question is from Tim Horan from Oppenheimer. Your line is open.

Tim Horan

Thanks guys. Just to be clear on the guidance, the second half are looking pretty large ramp, I mean, mathematically 15% sequential growth for third and fourth quarter. I know it can kind of balance out in either way. But are bookings stronger? Yes, just any more color on the confidence of that and the visibility on that and what gave you the confidence to guide to that? Thanks.

Joshua Bixby

As we talked about, it's a collection of a number of things. You're right, it's us looking at what's coming down the pipe, it's the growth in our existing customers, and it's a lot of really important opportunities that are coming our way that are a foundation of us being a unique, extremely large network that really values security, privacy and other things that are really top of mind.

So, it's absolutely a confidence in what we're seeing in the pipe. As Brett's come on, and I talked about this in the prepared remarks, we certainly have seen an operational rigor and a diligence, which we've already seen start to help in terms of focus. One of the things that needs focusing on as well in a slight shift for us is really focusing on partners and we're seeing renewed and strong growth through channels, which gives us a lot of leverage in our business.

So, a lot of things combined to give us that confidence.

Tim Horan

Is Compute@Edge an important part of that yet? Maybe just anymore color on your confidence of Compute@Edge, how differentiated it is longer term from what you're seeing right now.

Joshua Bixby

Yes, Compute remains strong in terms of our view on this market. I think to put this into context, as you know, our Compute story is very differentiated. We're talking about a technology that works at scale, that is secure, that pass the muster of the largest and most savvy technical organizations in the world and that is available to our customers now. It is forming a very important part of the buying decision for our customers.

But it's not just Compute. We're also looking at really significant differentiation on the security front as well. As we started to integrate Signal Sciences into the portfolio, we're seeing emerging qualities, where what they do plus what we do creates an even better outcome for customers in terms of visibility and capability, operational ease of use, all things that are very important.

So, I would say it's a combination of both Compute and the security stories, which are coming together to create that unique differentiation, and that differentiation we seem to be increasing our lead particularly versus the legacy players.

Tim Horan

Very helpful. Thank you.

Joshua Bixby

Thank you.

Operator

Your next question is from Jeff Van Rhee from Craig-Hallum Capital Markets. Your line is open.

Rudy Kessinger

Hey guys. This is Rudy on for Jeff. Thanks for taking my question. Want to kind of circle back to the guide. I'm curious with the linearity Q2 to Q3 and Q4. In past years excluding 2020 that Q2 to Q3 typically saw a 7% to 8% sequential increase, Q3 to Q4 typically mid teens. I mean, if I were to assume a typical

7% or 8% Q2 to Q3, that would force (phon) a 30% sequential from Q3 to Q4 just to get to the low end of the annual guide. So, I'm just curious how you expect that linearity to play out for the rest of the year.

Joshua Bixby

Sure. Adriel, do you want to handle that one?

Adriel Lares

Yes, absolutely. Yes, you're likely going to see probably stronger growth across both of those three parameters and the other factor here is clearly just where we squarely sort of come out in Q2. But overall just in terms of the visibility of the underlying growth that we see and the customers that we currently have today, (inaudible) clearly implying sort of the faster growth in the second half of the year that we've experienced so far in the first half of the year.

So the supposition of how exactly it's going to sort of play out in Q3 and Q4, I think will remain to be seen, but I think you're definitely going to see a second half growth that's going to be a bit faster than the first half.

Rudy Kessinger

Got it. With respect to Signal Sciences, I'm just curious what you guys have learned right now with respect to the different buying motions. Are you seeing different kind of customers? How's that sales team integrating with the existing sales team? Just a little more color you can share on that front?

Joshua Bixby

Sure. Let me start. In terms of integration, we moved at the start of the year to integrate the sales team completely, so everyone at Fastly is selling the complete suite. Again, it really comes back to our view that delivery and security are intimately intertwined. The advent of the differentiated sort of buyer opportunity here does have us expand into different buying centers. We're seeing some buying centers, for example, in the CECL or the security groups that Signal Sciences has been able to crack and we're taking advantage of that.

So we're definitely seeing the expansion of that. It's allowing us to wedge into organizations in sort of lieu of waiting for these larger enterprise sales cycles that may be a renewal of a large delivery contract. Fastly's always had a history of finding ways to flip the camel's nose into the tent. We've done that in the delivery space and we're seeing real opportunities in the security space.

So, overall, a differentiated approach, expanding out the customer subset and we saw a really nice growth in the Excite (phon) business as well over quarter-over-quarter, which is fantastic.

Rudy Kessinger

Great. And then just lastly, if I could. Gross margin, obviously, pretty steep step down from Q4, about 350 basis points. Just what drove that? We've heard some competitors talk about some pricing pressures. How should we think about that from here for the rest of the year?

Joshua Bixby

Sure. Adriel?

Adriel Lares

Yes, certainly. I mean, I think, first and foremost,, we still feel confident that we're going to be able to grow gross margin year-over-year, at least 100 basis points.

In terms of the step down, a few things driving that, primarily we're doing a few investments as we normally do at the beginning of the year, so you normally see a step down. The other factor is is we've got some additional investments into our actual infrastructure, into our pop locations that will sort of increase the resiliency of the network, or better than it already is. So I think from our standpoint, this is sort of a normal cadence that we experienced. If you look at our cap ex in Q1, it's in the high single-digits and we still expect the cap ex spend this year to be similar in that sort of 13% to 14% range.

So, from my standpoint, this is all normal—you sort of see a normal seasonal downtick here in the first half and then you'll see it as revenue and utilization picks up. In Q3 and Q4, you'll see that gross margin drive again, in particular, especially some the customer wins on the enterprise side, with some joint wins with Signal Sciences. So I think on that side after (inaudible) our sort of future uptick in gross margins as well, because the Signal Sciences products are clearly a much greater and accretive gross margin than we've had typically.

Rudy Kessinger

Great. Thanks. That's it for me.

Joshua Bixby

Thank you.

Operator

Your next question is from Robert Majek from Raymond James. Your line is open.

Robert Majek

Great, thanks. Best of luck, Adriel. It's always a pleasure working with you. Two questions, if I can. One, you touched on it but maybe you could just quantify. How should we think about the level of year-over-year CDN traffic growth in Q2 and for the remainder of the year and what's embedded in your guidance as we start to exit COVID and you start to see some pretty tough prior year comparisons? Two, can you give you some color on the revenue contribution from Signal Sciences in Q1 and/or the implied contribution in the Q2 guide? And if you can't share specifics, just any further general color on how quickly that product portfolio's ramping would be helpful. Thanks.

Joshua Bixby

Sure. Why don't I take the traffic question and then Adriel why don't you take the SigSci question. I think traffic has grown and continues to grow. We continue to see a nice pace of that growth. There's nothing that is unexpected in that. I think that speaks to our confidence. When we look at the world moving back into normality in Q3/Q4, we certainly see that continuing. I think that's outlined and projected in our assumptions around guidance. We're pleased with the growth and it's important and it's strong.

Adriel, why don't you take the SigSci question?

Adriel Lares

Yes, happy to. SigSci was around, approximately 10% of revenue in Q1. In terms of growth rates, it grew approximately mid teens, around 15% quarter-over-quarter. So, that business still continues to grow nicely, and as I've mentioned in an answer earlier before, there's some great cross-sell results that we've had and also in the pipe there's just a lot of business that is really being generated from a top of the funnel perspective on the security side. It's nice to see and I think it's where we think the world is going to.

So, having one of the best products out there I think is a boon for Fastly. Again, also, thank you for the kind words. Much appreciated.

Robert Majek

No, that was helpful. Thank you.

Joshua Bixby

Thank you.

Operator

Thank you. Your next question is from James Fish from Piper Sandler. Your line is open.

James Fish

Great. Hey guys. Adriel, I'll miss working with you here. But maybe just going back on that last question. Obviously, you guys have talked about it being revenue off the balance sheet for Signal Sciences, but there's new term licenses and new SaaS licenses. What did you see this quarter and what do you expect kind of next quarter? Is most of the business generated from new and upsell or renewals and maintenance at this point for Signal Sciences?

Joshua Bixby

Adriel?

Adriel Lares

Yes. Hey Jim. Definitely, we definitely see it out there regardless. But I think we're still expecting Signal Sciences to be in that sort of 10% range. I think given the growth rates that we're seeing, we're bullish and I think what we're trying to really encourage more is sort of the cross-selling and the co-selling because it does also bring on new opportunities for us to sell sort of the Fastly heritage delivery part of the business.

So, I think from our standpoint things look good. I think it's what's leading to not only the results that we just saw in Q1 but also just the general bullishness that we have for the rest of the year.

Joshua Bixby

(Multiple speakers) in the letter you would have seen the eight enterprise customer new wins from SigSci over the quarter. Again, that's an indication of the future of what we're going to continue to see and ramp on.

James Fish

Yes, no, absolutely, Josh. I mean, it's a good environment for SigSci. And not to beat a dead horse here, but the Q2 guide and full year, obviously, it's a tough compare for Q2, but what are you anticipating for—it seems like you're anticipating kind of flat to low single-digit organic growth in Q2. Obviously, again, a tough compare, but that kind of brings our NRR down to around 100% and really on the back half guide obviously some large events like the Olympics and other large sporting events. How much of guide is anticipating those events happening and some of the share wins from one of the largest streaming providers out there that we've picked up?

Joshua Bixby

Sure. Adriel, why don't you take that guide side and I'll come in on the traffic side?

Adriel Lares

Sounds good. yes, for the second half of the year, it isn't particularly—and we've talked about this before, Jim. So given necessarily an event that drives a quarter's or second half question on the revenue, I think what you're seeing in that second half of the guide, second half of the year guide, we've implied in the full year guide is the enterprise customers that we've clearly brought on board (inaudible) Q1, but also just the current customers that we have and the things that they're planning for and I think in a way we're sort of further penetrating this customer. So it gives us a level of confidence. That's kind of outside events, if you will. There isn't necessarily a particular event that we're necessarily sort of implying into that guide and really is just an overall general uptick that we have seen before. Again, we're sort of going back to sort of seasonal patterns that we've seen before in that business, again, excusing Q2—or excuse me, 2020 of last year.

And you're right, 2020 in terms of the comparison, Q2 of 2021, that's going to be the low point of comparison. I think once you get beyond that, given some of the disruptions we have from Q3 of last year, you'll begin to see these sort of upticks that'll just kind of generally follow our business but the comparisons that will sort of alleviate once you get past Q2.

Joshua Bixby

Yes. Jim, I think the other thing that's important to recognize here about Q2 last year is we had our previously disclosed largest customer who is a large chunk of revenue. So if you normalize or remove that and you normalize for SigSci, we're still seeing 20%-plus growth in the quarter, which notwithstanding the COVID lockdowns. In fact, we all were locked in our houses for those three months, which we're not seeing now.

So, if you sort of look at that and say, hey, there's a 20% growth above and beyond that. We're feeling confident about the growth, both in the quarter and leading through the latter part of the year.

James Fish

Great. Guys, great color.

Joshua Bixby

Appreciate it. Thank you.

Operator

Your next question is from Tyler Radke from Citi. Your line is open.

Tyler Radke

Hey, thanks. Thanks a lot everyone. Just first to follow-up on Jim's question. On the net retention rate, down at I think 107% down from 130% a year ago, maybe just help me understand kind of the drivers of that and is this just something that you expect to kind of recover as you get into the back half of the year. And as comps normalize maybe just help put a little bit more color around that net revenue retention number. Thanks.

Joshua Bixby

Sure. Adriel, do you want to take that one?

Adriel Lares

Yes, Tyler. I think the thing that we'd point to and we sort of published both metrics, but if you take a look at the LTM version of the NRR, that came in at 133%, which was slightly down from Q4, which was at 136.5%. I think that because of the maturation (phon) of our NRR, which is sort of a facts-based (phon) metric, which eventually will have the greater component of within Fastly. That one measures just one month, whereas the LTM version clearly tries to take a bit of the seasonality of, which is why we sort of referenced the (inaudible), etc., etc.

So I think the LTM version is a better one to look at, whereas the NRR, although we will make sure we publish this, make sure you have that metric, will bounce around a little bit more than normal.

Tyler Radke

Okay, thanks. A follow-up just on Compute@Edge. I know you talked a little bit about it in the prepared remarks with some of the momentum and I think there was a reference to a new customer in the investor letter. But kind of current, number one, are there certain verticals that you're seeing the momentum the strongest there? What's kind of the timing in terms of when you would really expect that to be a piece of the business that you'd be ready to disclose?

Joshua Bixby

Yes. So, we certainly have seen a strong uptick in commerce. We're seeing a strong uptick in security, as we referenced with the human security example, where this is being used to augment security. Security's a fast-moving space and requires this kind of technology to keep up with the bad folks on the other side who are innovating all of the time. So those are two big markets. We're certainly seeing some really interesting use cases in the IT space, etc.

I think we have said all along that this year is a year, 2021 is a year where we will be getting the marquee examples and cases out there, and 2022 is when this will have a meaningful impact on revenue. And nothing's changed from my perspective. I believe that to be the case.

One thing that's not well understood about our business is that our customers today are using compute. I mean, they are writing code at our edges that happens to be in VCL for many of our customers, but that's starting to change into the language of their choice.

But obviously, our customers rely on us in part to have their compute work at the edge, and that's the case for almost all of our enterprise customers and many of our customers who are below the enterprise level.

So, this is not something new to our customers, the idea of bringing code. What is new is the ability to write it in languages of their choice, and to be able to extend that beyond some of the functionality that we offer in the VCL version of our product today. But, don't be fooled into thinking that our customers aren't writing code. That's a core differentiation of Fastly in the past and will continue to be in the future.

Tyler Radke

Okay. Thank you.

Joshua Bixby

Thank you.

Operator

Your next question is from Brad Reback from Stifel. Your line is open.

Brad Reback

Great. Thanks. Joshua, with the billion of cash now on the balance sheet, roughly, what's the appetite for future M&A?

Joshua Bixby

Yes, I mean, we raised that money in part with that in mind. We continue to be very engaged in the ecosystem. Fastly's not a business that's grown over its 10-year history and we now are at our 10-year anniversary. So congratulations to all. But we're not a company that's grown by having M&A—continuously doing M&A. So I think what you saw in the Signal Sciences deal are the hallmarks for what we're going to be looking for, which is the best technology, the best people and a real overlap with our customer needs. We're going to be picky in that regard. We're going to continue to—but we'll continue to look for opportunities.

So, that was a unique asset we'll continue to look for unique assets, and if one pops up and it meets our criteria, which are pretty strict, I could see us acting. But it gives us that opportunity, which is fantastic, and we'll see what the future holds in that regard.

Brad Reback

Great. Thank you very much.

Joshua Bixby

Thank you.

Operator

There are no further questions at this time. Mr. Bixby, I'll turn the call back over to you.

Joshua Bixby

Before we sign off, I want to take a quick moment to acknowledge Fastly's 10-year anniversary as a company. A huge milestone that marks our many achievements together. Reminiscing on the past decade, we take pride in having led with our values, served our customers, safeguarded our culture, and remain remarkably agile in the face of rapid change. Given all that we've accomplished, I'm extremely confident in the growing demand for Fastly and the future of our business, which is guided by our ambitious product vision and unchanged commitments to a fast, secure, private and reliant (phon) internet for all.

I look forward to what lies ahead for us this year. Adriel and I hope to connect with many of you in the upcoming investor conferences. Thank you.

Operator

This concludes today's conference call. Thank you for your participation and have a wonderful day.