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Fastly, Inc. (FSLY)

Q1 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Rebecca, and I will be your conference operator today. At this time, I would like to welcome everyone to the Fastly First 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.

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

Thank you. And welcome, everyone to our first quarter 2025 earnings conference call. We have Fastly's CEO, Todd Nightingale; and CFO, Ron Kisling with us today. A 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, 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 investor supplement, all of which are furnished in our 8-K filing today, can be found in the Investor Relations portion of Fastly's website.

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.

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 report filed on Form 10-Q, filed with the SEC and our first quarter 2025 earnings release and supplement for a discussion of the factors that could cause our results to differ. Please refer, in particular, to the section 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's date. 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. As discussed last quarter, we've adjusted our non-GAAP treatment of gross margin to exclude the amortization of stock-based compensation and our internal use software costs and cost of revenue. This treatment is reflected in our financial tables in the earnings release and the eight quarter historical trended non-GAAP P&L in our investor supplement. Also, unless otherwise noted, all discussions on this call reflect this adjustment.

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 we will be attending four conferences in the second quarter, the 20th Annual Needham Technology, Media & Consumer Conference virtually on May 12, the William Blair 45th Annual Growth Conference in Chicago on June 4, the BofA Global Technology Conference in San Francisco on June 5, and the D.A. Davidson Conference in Nashville on June 10.

Now, I'll turn the call over to Todd. Todd?

Todd Nightingale

Chief Executive Officer & Director, Fastly, Inc.

Thanks, Vern. Hi, everyone, and thanks so much for joining us today. I'm excited to share with you our strong results for the quarter, hitting the upper ends of both our revenue and operating loss guidance ranges. As a result, we are raising both our 2025 revenue guidance and operating loss guidance by $10 million and $3 million at their respective midpoints. We also generated $8 million in positive free cash flow, bringing us closer to breakeven on this benchmark for the year. We made great progress in our go-to-market transformation, capitalizing on product release velocity and growing traffic share with our larger enterprise customers which yielded upside in our results.

Our Q1 revenue was $144.5 million coming in above the high end of our $136 million to $140 million guidance range with a growth rate of 8% year-over-year, an improvement compared to the 2% in the fourth quarter of 2024. Our customer count was 3,035 and enterprise customer count was 595. We brought in 19 new enterprise customers in the $100,000 annual revenue threshold in the first quarter compared to 10 in the fourth quarter. This comparison does not account for declines in the count due to falling below the $100,000 threshold or churn.

Year-over-year, we grew our enterprise customer count by 18, or 3%, and average enterprise customer spend grew 4% quarter-over-quarter to $907,000 as we saw solid cross-sell growth bias towards larger customers. Our platform strategy continues to yield results, as now almost half of our customers leverage two or more Fastly product lines, generating three quarters of our revenue.

We are excited about our revenue progress and the team's performance in Q1, accelerating the recovery in our top customers. We drove share gains at some of our largest customers and closed new enterprise accounts. Our top 10 customers represented 33% of revenue, down from 38% in the first quarter of 2024. Revenue outside of the top 10 grew 17% year-over-year, outpacing overall growth and continuing to drive revenue diversification. Last quarter, we mentioned that we expected this revenue concentration number to stabilize in the low to mid-30s, and that's exactly what we saw in Q1. We consider this a healthy level of concentration in the revenue mix and our go-to-market strategy will continue to emphasize logo acquisition and growing the enterprise customer mix outside of our top 10.

Gross margin for the quarter was 57.3%, slightly better than our projections. We are taking actions to improve our fixed overhead and bandwidth costs across our fleet. We've been focused on software-based fleet efficiency and believe there are significant gains for us to find here throughout the year. This will help us create additional capacity while mitigating supply chain dependencies and additional capital spend. These efforts, combined with our hardware investments purchased pre-tariff, leave us well-positioned to deal with the macro uncertainties that may unfold in 2025. And we believe, with the actions we've taken, any tariff impact on our CapEx spend will be immaterial.

We beat our operating loss guidance coming in at a $6 million loss compared to the guidance range of $11 million to $7 million loss. This was due to our gross profit dollar upside on higher revenue and relative cost control on the OpEx line. Continued cost optimizations and rigorous cash management have yielded a better than expected result and ultimately contributed to our healthy $8 million of positive free cash flow in the quarter. We expect our OP loss to improve through 2025 and anticipate delivering operating profit in the second half.

In the first quarter, we saw a new level of rigor and momentum from our go-to-market teams. Our new segmented go-to-market efforts have created a higher touch approach with our largest accounts while continuing to drive strong enterprise and mid-market customer acquisition velocity. This is driven by incentivizing cross-sell, optimizing our regional sales approach and expanding our product portfolio. We continue to focus on the customer acquisition motion and reducing the onboarding friction at Fastly, as we strive towards even more simplicity in both pricing and ease of implementation.

Our packaging initiatives have been contributing towards that goal. And in the first quarter, packaging deals more than doubled year-over-year, and those involving new logos grew over 80%. We continue to get great feedback on how much customers love the simplicity of our packaging motion, and we continue to look for ways to improve and simplify the customer experience across the board.

As part of our new high-touch customer success motion, we've seen acceleration of business and also increases in revenue commits across our largest customers. This, combined with the success we're seeing in packaging, has yielded solid results in committed revenue, driving more stability and visibility into our revenue pipeline. You can see these results starting to show up in our RPO, which grew 33% year-over-year and now sits at a record-high.

In the first quarter, we continued our success in diversifying our logo wins and penetrating new and existing customer verticals. We are particularly seeing momentum in new logo acquisition with enterprise customers in strategic verticals, such as travel and leisure, technology, financial services and retail. These include Volaris, a leading ultralow-cost airline who selected Fastly's platform for security, network services and compute; a leading software company's professional network who chose the Fastly platform to leverage our network services offering; a leading credit card issuer and a separate payment processing company in the United States who both selected our platform for security and network services; and a home furnishing company who moved to Fastly's platform for network services, security and compute. In all of these examples and many more, not only did we win where performance mattered, but also where platform completeness mattered.

We are cross-selling an increasing amount of our security compute and observability offerings in addition to our best-in-class network services. This is the new Fastly platform, highly performant, positioned for the future, and ensuring best-in-class performance to meet our customers' needs.

We're extremely excited about the progress we've made in our security portfolio and the expansion of the Fastly platform that it represents. Security offers Fastly a revenue stream that is predictable, recurring and sticky. In 2024, we expanded the Security portfolio from one offering, our WAF, to three core offerings that deliver synergistic value to our customers, WAF, bot mitigation, and DDoS protection. In the first quarter of 2025, we enhanced our WAF offering with Client-Side Protection, improved our DDoS offering with enhanced visibility and alerting, and expanded our bot solution to include dynamic challenges. We also just recently launched AI bot detection, enhancing our bot solution to allow customers to detect and mitigate unwanted AI bots scraping their data.

Today, almost half of Fastly customers now use multiple product lines, but many are just starting to bring online the full power of our Security portfolio. With all of this portfolio momentum, we've refocused our go-to-market on the Security cross-sell opportunity to help us capture the revenue potential of this portfolio. We're already seeing this transformation resonate in our customer base and feel confident about our portfolio breadth and competitive advantage in building security solutions that are trusted by platform engineering teams and the software engineering teams they serve. Our Security growth of 7% year-over-year in the first quarter does not yet reflect last year's portfolio expansion. Given our renewed focus in this area, coupled with our go-to-market incentives and strategy, we believe we can outpace the market in the back half of 2025 and be a share gainer. Moreover, we expect our Security pipeline and motion will be a major contributor to growth looking out to 2026 and beyond.

Revenue from our other segment, which includes our emerging products, saw nice gains in the quarter and grew 64% year-over-year. Compute represents significant differentiation for our platform in the market as more and more customers focus on differentiated, dynamic and personalized user experiences. Our outlook for 2025 continues to improve. And while macro uncertainties continue to persist across the market, we believe we have significantly mitigated any tariff impact to our CapEx and we have not seen any material change in our buyer behavior or demand patterns. Regardless, we are continuing to take a cautious approach to our guidance for the rest of the year.

Our second quarter guidance of 10% year-over-year growth and new 2025 guidance of 9% annual growth raises our prior guide. We are aiming to outperform these numbers and will continue to aggressively pursue gains in profitability and revenue growth. Please note that again we have removed US TikTok revenue beyond June 19 from our guidance.

In summary, we are pleased with our first quarter performance and are seeing signs of progress from last year's efforts. As the Fastly team continues to build momentum across go-to-market and product development velocity, we expect to accelerate customer acquisition, capture more market share and drive improved financial returns to our shareholders.

And now, to discuss the financial details of the quarter and guidance in detail, I will turn the call over to Ron. Ron?

Ronald Wayne Kisling
Chief Financial Officer, Fastly, Inc.

Thank you, Todd. And thanks, everyone, for joining us today. I'll discuss our financial results and business metrics before turning to our forward guidance. Note that, unless otherwise stated, all financial results in my discussion are non-GAAP-based.

Revenue for the first quarter increased 8% year-over-year to $144.5 million, coming in above the high end of our guidance range of $136 million to $140 million. There were no unusual true-up payments in the first quarter. Network services revenue was $113.2 million and grew 7% year-over-year. Security revenue of $26.4 million also grew 7% year-over-year, and our other products contributed $4.8 million to revenue, growing 64% year-over-year, driven primarily by our compute products. Traditionally, our first quarter experience is seasonally flat to modest sequential revenue decline over the fourth quarter. However, in our first quarter of 2025, we saw better than expected seasonal traffic demand and share gain, which contributed to the 3% sequential revenue growth.

Consistent with what we shared on our year-end earnings call, we anticipate the revenue contribution of our top 10 customers will remain in the low to mid-30% range throughout 2025. We consider this a healthy level of concentration in our revenue mix. Also, as was the case for every quarter in 2024, no customer accounted for more than 10% of revenue in the first quarter.

Our trailing 12-month net retention rate was 100%, down from 102% in the prior quarter and down from 114% in the year-ago quarter. Decline is primarily due to the revenue declines with a few of our largest customers in prior quarters and closely follows our overall revenue growth rate trend. We anticipate our LTM net retention rate will remain flattish near term, followed by expansion in the second half of 2025 as we begin to see the benefit of revenue growth from customers acquired in 2024.

We exited the first quarter with an RPO of $303 million, growing 33% year-over-year. This growth is a result of increasing number of our customers with revenue commitments and higher commitments at our largest customers, coupled with the success of our packaging strategy.

I will now turn to the rest of our financial results for the first quarter. As Vern mentioned earlier, we adjusted our non-GAAP treatment of gross margins to exclude the amortization of stock-based compensation and our capitalized internal-use software. This treatment is reflected in our financial tables and in my prepared comments for all prior-period comparisons and forward guidance.

Our gross margin was 57.3% in the first quarter, coming in 50 basis points above our implied guidance and down 230 basis points from 59.6% in Q1 2024. The upsize in guidance was due to the efficiency improvements Todd mentioned, better network utilization and continued cost control. The year-over-year decline was primarily due to the pricing dynamics we saw in 2024 where we experienced price per gigabit declines in the low-20% relative to our usual high-teens percent decline trend. We see these pricing dynamics stabilizing back to the high-teens across the remainder of 2025. Operating expenses were $88.7 million in the first quarter coming in as expected relative to our revenue upside and reflecting 6% sequential growth due to the seasonal impact of payroll taxes while coming in flat on a year-over-year basis compared to Q1 2024. Operating expense discipline combined with better than expected gross profit resulted in an operating loss of $5.8 million in the first quarter, coming in ahead of the lower end of our operating loss guidance range of $11 million to $7 million.

In the first quarter, we reported a net loss of $6.6 million or a $0.05 loss per basic and diluted share compared to a net loss of $5.3 million or $0.04 loss per basic and diluted share in Q1 2024. Our adjusted EBITDA increased to $7.8 million in the first quarter, compared to $4.9 million in Q1 2024.

Turning to the balance sheet. We ended the quarter with approximately $307 million in cash, cash equivalents, marketable securities and investments, including those classified as long-term. This is a sequential increase of $11 million from our fourth quarter. Our March 2026 zero coupon convertible notes became current in the first quarter and are now reflected in our current liabilities. We have adequate liquidity to cover our working capital operating requirements and pay this balance when the notes become due.

Cash from operations grew 55% year-over-year to $17.3 million in the first quarter, from $11.1 million in Q1 2024. Our free cash flow for the first quarter was $8.2 million, turning positive for the first time in eight quarters and representing a $10.4 million increase from negative $2.2 million in Q1 2024. This increase was primarily driven by improved cash from operations, lower purchases of property and equipment, lower capitalization of internal-use software, and lower repayment on finance lease liabilities.

Our cash capital expenditures were approximately 8% in the first quarter, coming in below our 2025 annual guidance of 9% to 10% of revenue we shared on our Q4 call. As a reminder, our cash capital expenditures include capitalized internal-use software. For 2025, we anticipate our cash CapEx will again be in a range of 9% to 10% of revenue with our medium to long-term cash CapEx declining to 6% to 8% of revenue.

I will now discuss our outlook for the second quarter and full year 2025. I'd 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 guidance reflects the dynamics in our business based on the visibility that we have today. I'd like to note that TikTok, one of our largest customers continues to be the subject of much scrutiny given the current June 19 deadline with respect to the US operations. Globally, ByteDance, the parent company of TikTok, represented less than 10% of our revenue in the first quarter of 2025, and the United States traffic represented less than 2% of revenue in the same period. We do not know the full outcome of the US policy on TikTok. Though it's a prudent measure, our 2025 guidance excludes revenue from their US traffic after June 19.

Due to improving revenue at some of our largest customers and incremental traffic ramps coming from our new customers, we expect to see modest upside to our typical flattish, sequential seasonal growth in the second quarter. As a result, for the second quarter, we expect revenue in the range of $143 million to $147 million, representing 10% annual growth at the midpoint.

Given our recent efforts to lower our network cost and drive overall cost of revenue improvement, for the second quarter, we anticipate our gross margins will increase approximately 50 basis points relative to the first quarter plus or minus 50 basis points.

Guidance for our second quarter operating results reflects the impact of the sequential increase in gross profit and the impact of the increase in operating expenses I described. As we shared previously, we experienced higher wage costs due to seasonally higher payroll taxes and sales and marketing events in the first half of the year. As a result, for the second quarter, we expect a non-GAAP operating loss of $8 million to $4 million and a non-GAAP net loss of $0.08 to $0.04 per share.

For calendar year 2025, we are raising our revenue guidance to the range of $585 million to $595 million, reflecting annual growth of 9% at the midpoint. We anticipate our 2025 gross margins will be approximately 58% plus or minus 50 basis points. As a result, we expect our non-GAAP operating loss to be in the range of $12 million to $6 million, reflecting an operating margin of negative 2% at the midpoint, an improvement of approximately 59% in dollar terms over 2024's operating loss margin of 4%. Additionally, we anticipate to achieve operating profit for the second half of 2025.

As mentioned earlier, given the seasonally heavier OpEx spend in the first half of the year, we anticipate our operating expenses to be lower in the second half. For modeling purposes, this implies 2025 operating expenses of roughly $350 million. We expect our non-GAAP net loss per share to be in the range of $0.13 to $0.07. And we expect our free cash flow to be in the range of negative $10 million to breakeven compared to negative $36 million in 2024.

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] And your first question comes from the line of Param Singh with Oppenheimer.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Thank you for taking my question. Really good job on the quarter. I wanted to firstly dive into your network side and the drivers for the upside. What's really driving incremental customer demand? And then I had a follow-up on the security. Thank you.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, it's a great question. We're pretty happy with the results across the board. We saw strong customer acquisition in terms of the strategic verticals we mentioned. And I think that the sales team's ability to execute not just the customer acquisition but to cross-sell has been enhanced for sure under Scott's leadership and under a new incentive plan there. And we've also certainly accelerated our recovery in our largest media accounts and by doing so posted a better than expected results in in that 10 ten cohort as well.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Got it. Thanks so much for the insight. And then moving to security, what percentage would you say of your installed base or customers are using WAF? And then how would you categorize both DDoS and bot mitigation in terms of the adoption and where it could go to by the end of the year?

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, we don't disclose exactly the WAF number, but we mentioned, about half or almost half of our customers are using more than one product line. The smaller number than that, that's using security and WAF is going to be smaller than that. So I think there's an enormous amount of opportunity we have to penetrate with – to penetrate our existing network service customers with WAF. It's still very early days on reactive DDoS and bot. And the percent penetration there is going to be single-digit percent for sure. There's tons and tons of opportunity. And that's why I mentioned, enriching the security portfolio now having three like fully-fledged kind of flagship products gives us enormous opportunity to drive real momentum in the security business, especially in the back half of the year.

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

Jonathan Ho
Analyst, William Blair & Co. LLC

Q

Hi. Good afternoon and congratulations on the strong results. I wanted to start out with your compute and observability business just given the 64% growth there. Can you give us some additional detail into maybe what products drove that and what the demand drivers were and how we should think about that business growth for the rest of the year?

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, absolutely. The biggest chunk of that growth is in compute for sure. And it's interesting. We're seeing a lot more of those strategic expansion verticals really focusing on that dynamic user experience. And so they're using server-less edge compute to be able to give real-time experiences, like we mentioned with airlines or travel companies. That real-time engagement and the web experience is so important. We're seeing expansion there. And we've had some interesting launches, specifically on the storage side, allowing some really creative use cases and really the ability to take compute and leverage it everywhere across our network and drive some real innovation. So it's both in the innovative storage side of the house and that dynamic user experience.

Jonathan Ho
Analyst, William Blair & Co. LLC

Q

Got it. And then just in terms of what you're seeing from a macro perspective, can you give us a sense of – I think you mentioned there was some additional conservatism in the guidance. Like can you talk about what you're seeing from customers? Is there any sort of extensions or elongation of deals? Just want to understand what that [indiscernible] (00:38:18). Thank you.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, it's interesting. We haven't seen a change in the demand pattern or the buyer behavior yet. And I think that's a good sign. Generally, we tried to take a lot of precaution to make sure that we were set up on the CapEx side regarding any kind of tariff impact. But as far as the demand side goes, we haven't seen anything yet, but we're still taking a fairly conservative view in the outlook for the rest of the year just to hedge there.

Jonathan Ho
Analyst, William Blair & Co. LLC

Q

Thank you.

Operator: Your next question comes from the line of Sanjit Singh with Morgan Stanley.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC

Q

Yes. Hi. Thank you for taking the questions. I wanted to ask about the sequential increase in RPO this quarter. It's like the largest in some – can you sort of unpack the drivers there, whether it was sort of the packaging motion, and is there any sort of additional sales incentives to the sales people to sign up these larger commitment contracts. Just want understand the dynamics behind the strong RPO growth this quarter.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah. And I think you mentioned a lot of the drivers there. So there's really three drivers. We had strategic renewals at large accounts, which is great, helps us maintain the predictability of that large customer cohort for the long term. We have a incentive program that is driving our sales team to negotiate for better and better commits, and that's across our entire sales force and that's certainly helping us drive that number. And the packaging solution, which is becoming more and more kind of the default motion that we're using in the mid-market and commercial accounts, that drives RPO by its very nature. And all three of those are contributing factors. And I'm certain that that's why we saw a record number on the RPO side of the house and why we're seeing good growth year-over-year. Anything you'd add?

Ronald Wayne Kisling
Chief Financial Officer, Fastly, Inc.

A

The only thing I would add, I think last year, we put in an effort to just improve our engagement at more senior levels across our largest accounts. And I think we've also seen some benefit from that engagement in driving larger commits as a percent of their traffic when we see renewals. So I think that's an additional impact that's driving some of the success we're seeing in RPO.

Sanjit K. Singh
Analyst, Morgan Stanley & Co. LLC

Q

Understood. And then toggling back to the network services business. You guys just mentioned in the script about signs of market share gains. In terms of what's driving that, is that Edgio conversions? Is it just a more favorable pricing environment so that Fastly can kind of more effectively compete on just the performance advantage you have? Just sort of the drivers of the market share gains that you guys expect to continue going forward.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah. I think as far as the market share gains go, we are seeing some Edgio customers coming to the Fastly platform and we're seeing some of the traffic from existing accounts that were on Edgio increasing their traffic share. Those are both nice to see. But I do think that the ability of the team to expand into new logos is fueling this as well, and there's no doubt that, that is delivering a healthy result. It's why we're seeing 17% growth outside of the top 10 accounts. And as more and more as we start to index on that larger tail of customers, we're going to start see the growth rate index closer to that 17%.

Operator: Your next question comes from the line of Rishi Jaluria with RBC.

Rishi Jaluria
Analyst, RBC Capital Markets LLC

Q

Oh, wonderful. Thanks so much for taking my questions and nice to see continued progress and acceleration here. Maybe I wanted to start with the TikTok. So appreciate the conservatism in not including US TikTok revenue kind of after the deadline. Maybe can you walk us through the non-US piece and maybe how we should be benchmarking the potential geopolitical risk that TikTok may try to bring kind of all of it in-house or to Chinese carriers, given, obviously, all the trade tensions between the US and China? Just how are you thinking about that? And maybe alongside that, is there an ability to offset some of the potential loss of US traffic with other products, including compute and security? And then I've got a quick follow-up.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah. It's a good question, and I want to make sure not to overshare too much about a single customer and that engagement. But it's been a very strong relationship. It continues to grow. We have a lot of optimism that we're going to be able to continue to operate in the US, but more importantly grow that overall account globally because we've had such a strong partnership there. And as you said, that includes not only more use cases within network services but across the portfolio.

Rishi Jaluria
Analyst, RBC Capital Markets LLC

Q

Got it. No, thanks, Todd. That's helpful. And then maybe just to piggyback on Sanjit's question, with as you're out in the market and a few others kind of having exited the space, what are you seeing in terms of the pricing environment as you work through renewals? How should we think about that going forward? Is there some level of maybe not pricing stability, but at least maybe more favorable pricing or less severe pricing declines than we've been seeing over the past couple of years? [ph] And where is there (00:44:27) your opportunity to kind of use that to your advantage? Thanks.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, Ron can give a good color here for sure, because we are seeing that pricing environment getting better, which I think is definitely giving us optimism for the next few quarters and even few years on how healthy this part of the market is going to be. But largely, our strategy is based around acquiring new customers and driving market share gains. And I think the biggest upside we have is accelerating that motion across the board. But there's no doubt that the pricing environment can be a tailwind in the near and midterm.

Ronald Wayne Kisling
Chief Financial Officer, Fastly, Inc.

A

The other thing I would add, I think, what we saw last year, particularly amongst our largest customers, was an acceleration in kind of the price downs to kind of the low-20s, above kind of what we've seen that longer term trend be kind of in the high-teens. What we've seen this year is kind of a return to kind of that normal trend line. And we, from what we've seen, expect that trend line to stabilize kind of back into the high-teens with the changes we've seen in the macro market.

Operator: Your next question comes from the line of James Fish with Piper Sandler.

James E. Fish
Analyst, Piper Sandler

Q

Hey, guys. Wanted to circle back on shockingly Edgio, surprised, it took that long to talk about it. Congrats on the LinkedIn win. But can you just parse through how much of the tailwinds you're seeing today between new accounts to Fastly versus the existing overlapping accounts and any color there?

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

I'd say the first thing I would mention is that we're not done. The commits that were part of the Edgio platform are still active and they still haven't all settled out. So we're still in the middle, probably halfway through this motion, and we're pushing hard to make sure we're acquiring as much business as possible. As far as accounts that are new to Fastly and traffic upside, I'd say there's more opportunity and there'd been more business in terms of traffic increases than new logos, but it's been healthy on both sides for sure.

James E. Fish
Analyst, Piper Sandler

Q

Got it. And how are you guys thinking about the opportunity with AI Accelerator and why Fastly sort of has the right to win that workload or if there is required more caching at the edge or inferencing?

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah. I think AI Accelerator and more and more, we're looking at the opportunity to expand that into more sophisticated use cases. I think Fastly absolutely has the right to win. The core use case, the core value is delivering a more human – a lower latency experience for LLM interaction. And we absolutely have the performance leader in this space and our caching technology and in this case the semantic, matching caching technology is really best-in-class. I think we absolutely have the right to win there. And we've also seen some real traction in deploying AI solutions in other parts of our business, especially security. We just launched the AI scraper bot mitigation, which has gotten a ton of interest, especially at RSA last week. And we're leveraging AI [ph] interactive (00:48:16) DDoS product as well now and really delivering, I think, a pretty differentiated solution here. So I think there's opportunity on the AI side across the portfolio. And for sure, I think we have the right to win.

Operator: Your next question comes from the line of Madeline Brooks with Bank of America.

Madeline Brooks
Analyst, BofA Securities, Inc.

Q

Hi, team. Thanks so much for taking my question. Just one broader one, I guess a kind of a multipart one though. But if I think about comparing your comments on one being a little bit more conservative for the year just in general with the macro backdrop and geopolitical, but then I look at the guide being raised by, I think, from my calculation, roughly $3 million more than the beat and your strong commentary on expectations for second half, I just want to know how you kind of marry those two things just because if I also look at some, of course, trailing metrics but still NRR doesn't give a lot of cushion right now where we are for any further deceleration or contraction. So it just seems like second half, there's a lot of optimism behind it and I just would like to know kind of where that's coming from and if there's any early signs you've seen that could kind of help us get comfortable with your level of optimism. Thanks.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

We've got pretty good visibility into the pipeline right now. [ph] I do think (00:49:45) we're being fairly conservative on that guide. There's opportunity for us to see a policy adjustment on TikTok again that would drive revenue into the projection. And we've got, I think, an opportunity to get upside on the Edgio traffic transformation here, which again would deliver upside to our projection. You can see that with 17% growth outside the top 10, our top 10 is still in negative growth. We've got an opportunity to turn that around. And really, I think, turning that around faster and driving a better results sooner gives us an opportunity not just to get to the new raised guide but to beat that as well.

Operator: [Operator Instructions] And your next question comes from the line of Rob Palmisano with Raymond James.

Robert Palmisano
Analyst, Raymond James & Associates, Inc.

Q

Hey, guys. Congratulations on the quarter. So sticking with the elevated full year guide, do you expect to be EBITDA positive for the rest of this year? And I was also wondering just in terms of what you're seeing with respect to the pace of new deals that are coming in and whether you're seeing any improvement in your sales cycles.

Ronald Wayne Kisling
Chief Financial Officer, Fastly, Inc.

A

Yes. I think with respect to adjusted EBITDA, we would expect to continue to see a positive EBITDA for the year and across the year. And particularly as we talked about in the second half as a whole, we would see operating profit, given the trajectory in our revenue outlook and OpEx for the year.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

As far as the sales cycles go, I mentioned we haven't seen a change in the buyer behavior. What we have seen I think is a change in the rigor, in the operational rigor that our sales team is operating with Scott and his new leadership. And because of that, our pipeline conversion is getting better and our ability to project and predict those deals has been cleaner. I think we're seeing some efficiency gains on the go-to-market side, and we've got opportunity to double down on that efficiency as well. So I see improved execution for sure, no doubt about it.

Operator: And your final question comes from the line of Rudy Kessinger with D.A. Davidson.

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

Q

Hey. Great. Thanks for taking my questions. Todd and Ron, I guess, on security, just why is the growth so slow? Single-digits last few quarters. Should we think of the WAF market just being a single-digit growth market from here on out? And then secondly when should we start to see some acceleration from bot and DDoS? I think the bot management product was launched about a year ago now. And so maybe just talk about how the pipeline is shaping up for those products and where maybe security growth could be by year-end.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Yeah. We don't publish the projection by product line or any single product. But I will say – I don't think we've yet seen the impact of bot or reactive DDoS in those numbers. I believe that security – as you mentioned, I believe the security growth number can be much higher and we can get to that mid-teens growth rate where the security space is. And being a market share gainer actually beat that. And that's going to be our target. How quickly we get there, I think, will remain to be seen. But as far as bot and DDoS, we are, I think, really right at the beginning of the growth curve there.

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

Okay. And then if I look kind of [ph] the beat in (00:54:07) the quarter, it looks like about 70% of the quarter-over-quarter revenue growth in dollars was from the top 10 customers. How much of that – you talked about share gains. In the last couple years, you have gains, you have losses, it kind of ebbs and flows. How much of that feels like permanent share gains or at least semi-permanent share gains versus – were there any kind of onetime events that surprised you or temporary traffic shifts with those customers that benefited Q1?

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.
A

Those top 10 media customers, there's a lot of seasonality, but no onetime event I can think of. And I think, to be honest, the share gains here are continuing to increase with the effect of the Edgio change and I think a lot better execution with what we've now deployed, a much higher touch customer success and customer engagement model for our top media accounts. But again, revenue diversification is important to us. We saw 17% growth outside that top 10 and we are going to continue to aggressively pursue not just growth in the top 10, but across the customer base to continue to diversify our revenue and sort of strengthen the portfolio growth outside of network services as well.

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

[indiscernible] (00:55:35) Rudy?

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

Yes. All good. Thanks, guys.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.
A

Thank you.

Operator: [Operator Instructions] And at this time, there are no further questions. I will now turn the call back over to Todd for closing remarks.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.
A

Excuse me. I'm sorry. It looks like we do have one more, Rebecca.

Operator: And we do have a question that has come into queue. It is Param Singh with Oppenheimer.

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

Yeah. Hi. Thank you. Thought I'd ask a follow-up question here. What do you think is needed in the market to rationalize pricing here? Obviously, getting to high-teens from 20% decline is definitely an incremental improvement, but the idea was that, once some of the bad actors in the market go away, you could probably get down to maybe low double-digit price decline and hopefully improve from thereon. So what's really missing in the market? What's really needed for the customers to actually accept a better pricing environment? Thank you.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

I think strong sales execution is a part of that from our team, and we are starting to see that. But I think the – like a healthy market here looks like mid-teens. And we're going to be pushing hard at least to do our part to drive the market towards that direction. And I do think that with the current competitors in the space, the market for sure supports that, and that would be a nice tailwind to the business, both on the gross margin and the top line side for the next few years.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Got it. Thank you so much. Appreciate it.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

A

Thanks. Thank you.

Operator: And I will now turn it back over to Todd for closing remarks.

Todd Nightingale
Chief Executive Officer & Director, Fastly, Inc.

Thanks so much. I want to thank our employees, customers, partners and investors. We remain focused on execution, bringing lasting growth to our business and delivering value to all of our shareholders. Thank you so much for your time today.