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# Fastly, Inc. (FSLY)

Q2 2025 Earnings Call

## CORPORATE PARTICIPANTS

**Vernon P. Essi**

*Vice President-Investor Relations, Fastly, Inc.*

**Kip Compton**

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

**Ronald Wayne Kisling**

*Chief Financial Officer, Fastly, Inc.*

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## OTHER PARTICIPANTS

**Jonathan Ho**

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**James E. Fish**

*Analyst, Piper Sandler & Co.*

**Frank G. Louthan**

*Analyst, Raymond James & Associates, Inc.*

**Rudy Kessinger**

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## MANAGEMENT DISCUSSION SECTION

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

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**Vernon P. Essi**

*Vice President-Investor Relations, Fastly, Inc.*

Thank you, and welcome, everyone, to our second quarter 2025 earnings conference call. We have Fastly's CEO, Kip Compton; and CFO, Ron Kisling, 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 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.

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 Report filed on Form 10-Q, filed with the SEC, and our second quarter 2025 earnings release and supplement for 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. 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 two conferences in the third quarter, the KeyBanc Technology Leadership Forum on August 12 in Park City, and the Piper Sandler 4th Annual Growth Frontiers Conference in Nashville on September 10.

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

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## Kip Compton

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

Thanks, Vern. Hi, everyone, and thank you for joining us today. I'm delighted to join you today in my first earnings call as CEO, and I'm excited about the road ahead for Fastly. We continue to see momentum in the business and have a strong Q2. We look forward to sharing the details of the quarter and our updated view for the year in today's call.

In my first 45 days as CEO, my top priority has been building on the momentum we established in the first half of the year, as well as looking ahead with a focus on clear execution for the second half. Since joining Fastly about 18 months ago, I've been deeply involved in leading the product organization and working closely with the executive team and the board in developing and driving our strategy.

My role as Chief Product Officer here at Fastly, together with my prior experience running large scale organizations and growing fast businesses, has enabled my seamless transition to CEO. Throughout this transition and, as we look ahead, we remain committed to delivering long-term value to all of our stakeholders by keeping customers at the center of our decision making and building products that are responsive to their evolving needs.

Going forward, I'm excited to share my vision for Fastly with a keen focus on accelerating our growth rate and driving to profitability in the near term. We will continue to evolve our strategy and sharpen our execution, dedicating significant time to understand and responding to the needs of our customers. I firmly believe that understanding our customers' business challenges and solving problems together is what Fastly does best.

Before we begin a review of the quarter, I want to discuss two changes to our leadership team. Earlier today, we announced that our Chief Financial Officer, Ron Kisling, is stepping down. After four years, he is moving on to explore new opportunities. On behalf of the board and all of our employees I want to thank Ron for his dedication, commitment and many contributions to Fastly. We wish him all the best.

Ron's departure creates an opportunity to evolve the leadership team. I'm pleased to welcome Richard Wong to Fastly as our new Chief Financial Officer. Rich joins us with three decades of financial leadership experience. He has held a number of senior leadership roles at platform and SaaS companies, including CFO of Benchling, CFO of Houzz and Senior Finance roles at LinkedIn and Yahoo!.

Rich has a strong combination of strategic financial planning, experience and vision, combined with a robust foundation in investment banking. He will be an excellent addition to our leadership team as we grow and scale the business, and I look forward to him engaging with our investor community. Rich will join Fastly on August 7 as an advisor and officially assume the CFO role on August 11.

Separately, as we build on our market momentum and focus on exploring growth, we must continue to deliver even stronger go-to-market execution and provide a seamless experience for our customers. With that in mind, I've asked Scott Lovett, our Chief Revenue Officer, to expand his responsibilities and take on a new role as President, Go to Market, bringing together all of our revenue functions and our marketing organization under his leadership.

Since joining Fastly, Scott has recruited world-class leadership to accelerate the transformation of our go-to-market motion. We've segmented our customer base to better align our sales resources around customers who value performance. This realignment has increased both our new customer revenue and our cross-sell and upsell results across our existing customer base.

I'm confident that this combined go-to-market team will better serve new and existing customers and, importantly, elevate Fastly's visibility in the marketplace. We believe this will also result in greater internal efficiencies and improve coordination across our product, marketing and revenue teams. I'm excited about these changes and believe Rich and Scott will each have a significant impact in their new roles.

Now let's review our Q2 results and forward guidance. Our Q2 revenue was \$148.7 million, above the high-end of our guidance range, with a growth rate of 12% year-over-year, an improvement compared to 8% year-over-year in the first quarter. This was the result of new customer acquisition share gains due to competitive takeout strategies, as well as favorable pricing.

Security revenue reached a record high and accounted for 20% of total revenue. This represents 15% year-over-year growth, driven by increasing adoption of our new security products launched over the last year.

We posted a gross margin of 59%, a 170-basis-point gain quarter-over-quarter as we experienced margin leverage on a revenue upside along with improved network efficiency resulting from technology enhancements and optimized networking. Additionally, we experienced favorable pricing, which we expect to continue into the second half of 2025.

Our operating loss of \$4.6 million outperformed the guidance midpoint of a \$6 million loss. We achieved notable operating leverage this quarter with OpEx up just 2% year-over-year compared to 12% revenue growth. Continued cost optimizations and cash collection management yielded better-than-expected results and contributed to our healthy cash flow from operations of \$26 million or 17% of revenue.

We are raising both our 2025 revenue guidance and operating loss guidance by \$8 million and \$3 million at their respective midpoints. Similar to Q2, we anticipate double-digit growth rates year-over-year for our third quarter revenue. Consistent with prior commentary on the 2025 quarterly progression, we expect operating loss to improve through 2025 and to deliver operating profit during the second half.

Moreover, we are now guiding to positive free cash flow for the year and anticipate the range to be between breakeven and positive \$10 million. Ron will review our financial results and guidance in more detail later in the call.

Total customer count was 3,097 and enterprise customer count was 622, an increase of 27 from last quarter. Additionally, we saw our LTM NRR increased to 104% from 100% in the first quarter, reflecting its recovery momentum.

Our top 10 customers represented 31% of revenue, down from 33% in the first quarter. Revenue outside the top 10 grew 17% year-over-year, outpacing overall revenue growth and continuing to drive revenue diversification. This marks the fifth quarter in a row where revenue outside the Top 10 grew faster than overall revenue.

During the second half of the year, Scott will drive three pillars of expansion in his new role as President of Go to Market. First, we will continue to target customers where performance matters. This extends beyond delivery and into newer, intelligent features within our platform, including adaptive security and observability analytics features that can only exist on the edge.

Our DDoS Attack Insights launched in April further exemplifies our unique edge positioning. Beyond our largest customers, there is a target-rich environment of Fortune 1000 digitally-native organizations that are in play as incumbents have been slow to evolve. We are continuing to gain share and are driving competitive takeouts.

Second, we will continue to cross-sell and upsell within our installed base of customers. This is a high priority for our revenue team and Scott has driven great results in expanding wallet share this year by incentivizing the teams to grow more within our existing base.

Customers that purchase more than one product from Fastly continue to increase. In the second quarter, almost 50% of our customers used two or more products, and those customers generated more than 75% of our revenue.

Third, we will unlock further revenue growth via geographic expansion. Fastly is underexposed to international revenue and we see this as an incremental revenue opportunity. To increase our focus in this area, we've created a new leadership position to drive opportunities in APJ. Nicola Gerber is now Head of our APJ region, bringing more than 20 years of experience in networking and cloud services at AWS and Cisco. Additionally, we recently brought on board a new Regional Vice President for Southern Europe. You will hear more about our international go-to-market expansion later this year with targeted impact in 2026.

All three of these pillars of expansion will be built on a simple customer acquisition motion. We will continue to drive simplicity in both pricing and ease of implementation reducing customer onboarding friction. Packages are part of this simplified approach and in the second quarter, the number of packages sold increased more than 50% year-over-year, and package renewals grew over 130% year-over-year.

Our high-touch customer success motion has helped our top 10 cohort return to year-over-year growth with strong revenue commitments across these customers. Our recent strength in RPO reflects the success. RPO grew 41% year-over-year and now sits at a record high. While I'm very pleased with this progress, we are continuing to look for ways to improve our customer acquisition motion and drive even greater simplicity, velocity and success.

In the second quarter, we continued our momentum in penetrating key industry verticals, mainly at the expense of incumbents. Financial services and healthcare are both security-rich verticals and are often early adopters of advanced threat detection and observability technologies. Omni-channel retail continues to be a Fastly strength as customers demand edge-based capabilities to process secure transactions and enhance their customers digital experiences to drive better business outcomes.

Examples of key wins across these verticals include a leading provider of ambulatory healthcare technology solutions selected Fastly for our security offering, a premier programmable financial services company, selected Fastly's DDoS technology and a key cross-selling opportunity expanding the use of our platform. A cloud-native SaaS banking platform selected Fastly for their security needs, replacing a competitor's WAF with our comprehensive Next-Gen WAF solution.

A leading global omni-channel retailer of sports, fashion and outdoor brands selected Fastly for our complete platform, replacing an incumbent's delivery and WAF offerings as well as a third-party bot detection solution. And a major international warehouse club selected Fastly's full platform to modernize its entire technology stack.

The go-to-market transformation Scott and his team are driving has contributed to our favorable results, and we believe that that momentum will continue. Additionally, our platform strategy remains a core part of our success. We've established momentum in our product releases and feature improvements. This is especially true in security, where we launched several new products in the last year. You can expect to see more releases across the platform in the coming quarters.

And now, I'll ask Ron to discuss the financial details of this quarter and our guidance. Ron?

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## Ronald Wayne Kisling

*Chief Financial Officer, Fastly, Inc.*

Thank you, Kip, 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 second quarter increased 12% year-over-year to \$148.7 million, coming in above the high-end of our guidance range of \$143 million to \$147 million. Increased new customer acquisition from our go-to-market initiatives and share gains from our competitive takeout strategies coupled with a favorable pricing environment, contributed to this upside.

Network services revenue of \$114.9 million grew 10% year-over-year. Security revenue of \$29.3 million grew 15% year-over-year, comprising a record 20% of total revenue. And our other products revenue of \$4.5 million grew 60% year-over-year, driven primarily by sales of our compute products.

In the second quarter, our top 10 customers represented 31% of our revenue. We continue to see strength in our broader customer base with revenue from customers outside our top 10 customers growing 17% year-over-year and 6% sequentially. We anticipate revenue from our top 10 customers will remain in the low 30% range throughout 2025. Also, no single customer accounted for more than 10% of revenue in the second quarter and affiliated customers that are business units of a single company generated an aggregate of 10% of the company's revenue for the quarter.

Our trailing 12-month net retention rate was 104%, up from 100% in the prior quarter and down from 110% in the year-ago quarter. The quarter-over-quarter increase was primarily due to revenue increases from a few of our largest customers in prior quarters and closely follows our overall growth rate trends.

We exited the second quarter with record RPO of \$315 million, growing 41% year-over-year. This growth reflects progress in our efforts to increase the number of customers with revenue commitments and to drive higher commitment levels with our largest customers, coupled with an increasing share of predictable revenue packages as a proportion of our revenue.

I will now turn to the rest of our financial results for the second quarter. Our gross margin was 59% in the second quarter, coming in 120 basis points above our implied guidance and down 40 basis points from 59.4% in Q2 2024. The upside to our guidance was margin leverage from the higher revenue and moderation in price declines.

We are also seeing the benefits of increasing international traffic, enabling network efficiencies, including increased network [ph] pairing (00:29:20). We believe moderation in price declines and network efficiencies will continue into the second half, and coupled with the increase in our revenue guidance, we expect to maintain these improved gross margins through the remainder of 2025.

Operating expenses were \$92.3 million in the second quarter coming in as expected relative to our revenue upside and reflected 4% sequential growth due to the impact of increased payroll-related expenses and IT spend. We are continuing our focus on our operating expenses and driving leverage in our operating results. Due to these efforts and the abating of seasonally high payroll taxes we see in the first half, we expect our operating expenses to decline in the second half, which is reflected in our guidance, I will discuss in a moment.

We reported an operating loss of \$4.6 million in the second quarter coming in better than the \$6 million midpoint of our operating loss guidance range of \$8 million to \$4 million. In the second quarter, we reported a net loss of \$5 million or \$0.03 loss per basic and diluted share compared to a net loss of \$8.1 million or \$0.06 loss per basic and diluted share in Q2 2024. Our adjusted EBITDA was \$8.9 million in the second quarter, compared to \$2 million in the second quarter of 2024.

Turning to the balance sheet, we ended the quarter with approximately \$321 million in cash, cash equivalents, marketable securities and investments, including those classified as long term; a sequential increase of \$14 million over Q1 2025.

As a reminder, our March 2026 0% coupon convertible notes balance of \$188 million became current in the first quarter and is now reflected in our current liabilities. We have adequate liquidity to cover our working capital operating requirements and to pay the March 2026 convertible notes when they become due.

Our cash flow from operations was positive \$25.8 million in the second quarter, compared to negative \$4.9 million in Q2 2024. Our free cash flow for the second quarter was \$10.9 million, representing a \$29.5 million increase from negative \$18.5 million in Q2 2024 quarter.

While cash capital expenditures were approximately 12% of revenue in the second quarter, we anticipate our cash CapEx will be in the range of 9% to 10% of revenue for the full year. With our medium to long term cash CapEx declining to 6% to 8% of revenues. As a reminder, our cash capital expenditures include capitalized internal use software.

I will now discuss our outlook for the third 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 these dynamics in our business and is based on the visibility we have today.

I'd like to note that on June 19, the current administration extended the prior non-enforcement instructions on TikTok's US operations until September 17. Globally, ByteDance, the parent company of TikTok, represented less than 10% of our revenue in the second quarter of 2025, and the United States traffic represented less than 2% of our revenue in the same period. While we do not know the outcome of US policy on TikTok, to be consistent with our practice in the first half of 2025, we are excluding TikTok's US forecasted revenue beyond September 17 from our guide.

As Kip discussed, we saw revenue strength from new customer acquisition, share gains due to competitive takeout strategies, as well as favorable pricing. We expect these dynamics to continue into the second half and, as a result, we expect to see modest upside to our typical flattish sequential seasonal growth in the third quarter.

For the third quarter, we expect revenue in the range of \$149 million to \$153 million, representing 10% annual growth at the midpoint. Given the ongoing network efficiency improvements in our cost of revenue, we anticipate our gross margins for the third quarter will improve 50 basis points relative to the second quarter to 59.5%, plus or minus 50 basis points.

Guidance for our third quarter operating results reflect the impact of a sequential increase in revenue and gross margin and the benefit of a sequential decrease in operating expenses. As I described earlier, we will benefit from seasonal declines in payroll taxes, as well as the seasonal declines in our marketing spend on events and an increase in capitalized internal use software-related expenses in R&D. As a result, for the third quarter, we expect a non-GAAP operating loss of \$1 million to a non-GAAP profit of \$3 million. We expect a non-GAAP net loss of \$0.02 per basic and diluted share to a non-GAAP net profit of \$0.02 per diluted share.

Note that for the third quarter, fully diluted shares for positive EPS will increase approximately 5 million shares over our basic share count of 148 million shares.

The recent momentum in our business and gains in profitability position us well to achieve profitability on a non-GAAP basis. For calendar year 2025, we are raising our revenue guidance to a range of \$594 million to \$602 million, reflecting annual growth of 10% at the midpoint. We anticipate our 2025 gross margins will be approximately flat plus or minus 50 basis points relative to 2024 gross margins of 58.8%.

We are reducing our non-GAAP operating loss expectations to a range of \$9 million to \$3 million, reflecting an operating margin of negative 1% at the midpoint, an improvement of approximately 73% in dollar term over 2024's operating loss margin of 4%.

For modeling purposes, this implies 2025 operating expenses are approximately \$355 million to \$360 million. We expect our non-GAAP loss per share to be in the range of \$0.10 to \$0.04 and we expect free cash flow to be in the range of breakeven to positive \$10 million compared to negative \$36 million in 2024, an improvement of \$41 million year-over-year at the midpoint.

Before we open the line for questions, I'd like to thank Kip, the Fastly board, and all Fastly employees for their support. I'm confident in Fastly's future and 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 Jonathan Ho with William Blair. Your line is open.

**Jonathan Ho**

*Analyst, William Blair & Co. LLC*

Q

Good afternoon and congratulations on the strong results. Ron, it's really been great to work with you these past few years and we really wish you the best for the future as well. Welcome on board, Kip and Rich as well.

Just maybe to start out, clearly, there's been significant change at the management level, it seems, in many of the key leadership positions, should we view this as a new chapter in the Fastly story? And if it isn't maybe too early, what does that opportunity set maybe look like as you look a little bit longer term? I know you've outlined some of the strategic and tactical opportunities here, but how should we think about the opportunity to unlock that faster growth for Fastly?

**Kip Compton**

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

A

Yeah. Thanks for the question. I think new chapter is probably right. I feel like we have an opportunity to build on what we have achieved, including Ron's many contributions. We've established a strategy that's beginning to show results. And I think this quarter exemplifies that.

Of course, we're looking forward to more results to come, but we have an opportunity, I think, to lean into where we've established momentum, particularly in go-to-market and product velocity and really just overall increase our focus and speed in executing our strategy and accelerate results and accelerate towards profitability as soon as possible. And I think, longer term, that strategy will open up significant opportunities for us, obviously, in security and compute, and we'll have more to say about that in future calls.

**Jonathan Ho**

*Analyst, William Blair & Co. LLC*

Q

Got it. And just as a quick follow-up, can you talk a little bit about the pricing environment and what's maybe giving you the optimism that this can hold? Any additional color would be valuable. Thank you.

**Kip Compton**

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

A

Yeah, I'll comment. And I'm sure Ron will have a perspective on this as well. I think that we've seen – we've talked about an improving pricing environment, I think, for a couple of quarters now. I think one thing that started to kick in for us is the increased discipline and focus that Scott and his leadership team on the go-to-market side have brought, where we're being very thoughtful about how we're negotiating discounts with our customers, as well as how we're negotiating commitments committed revenue from those customers. And then that's very important and I think you can see that in our record RPO.

**Ronald Wayne Kising**

*Chief Financial Officer, Fastly, Inc.*

A

Yeah. And I think the only thing I would add to that is just to kind of that internal discipline is kind of what we're seeing in the macro one. I think, with the consolidation in the industry, that's creating some stability.

I think we're also seeing just kind of a post-2024 where we did see some acceleration. I think we're seeing stability. We're seeing that not only in the second quarter, but in the negotiations and renewal conversations we're having for Q3 and Q4 where we're seeing stability. And so I think that trend line, we see being favorable through at least the end of the year.

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**Jonathan Ho**

*Analyst, William Blair & Co. LLC*

Q

Thank you.

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

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**James E. Fish**

*Analyst, Piper Sandler & Co.*

Q

Hey, Kip, congrats on the new promotion here. And Ron, I'll echo Jonathan's comments that it was great to work with you and best of luck on your next endeavor.

Did want to dive into the cross-sell initiative for the 2025 comp plan. Anything you guys can share beyond the greater than 50% and greater than 130% metric-wise on how this cross-sell and upsell is going. What I'm backing into on the in-period NRR, it looked actually exceptionally strong. So, anything else you guys can share? How is productivity of the new security specialist, things like that?

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**Kip Compton**

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

A

Yeah, I'll – again, I'll comment and I'm sure Ron will have a perspective. And I'll just comment maybe qualitatively. I spent a lot of time with customers, and I can kind of share with you what I've seen from customers. Our platform strategy is really starting to have a meaningful impact on the way that they think about us as a partner and as a vendor. And we've seen more and more situations where our existing customers pick up new products for this to enhance the use cases or even to go into new use cases that Fastly wasn't previously involved in.

And a lot of the feedback we get is that they're very happy with the performance and the support [ph] are often to our call outs (00:41:33), and they're looking for more opportunities to leverage Fastly. And as we've launched particularly the additional security products over the last year, that's been a little bit of a recurring theme in some of our existing customers expanding into new use cases with us.

But Ron may have some other more quantitative thoughts on that.

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**Ronald Wayne Kisling**

*Chief Financial Officer, Fastly, Inc.*

A

Well, the only thing I would add to that and we've talked about this for a while, I think. In the industry as a whole has been moving more toward a platform where people do want to buy a platform with their security, with compute, all on a single platform. That's evolving. And we've continued to do our platform unification, making it a lot easier to add those products.

And then just to add to what Kip said, we've expanded our product portfolio, particularly around security. It's really enabled us to start to kind of gain from those trends in the market and accelerate in the number of products that people have. And we've certainly built a sales plan around leveraging that capability.

**James E. Fish**

*Analyst, Piper Sandler & Co.*



Got it. Makes sense. And look, I was – on the higher revenue commitments from the top 10, it looked like you drove a decent acceleration here on the RPO side of things. So, how should we think about some of the bookings from them this quarter and any vertical strength you saw within those top 10 for looking at those minimum commitments?

Is it – I'm trying to understand how much of it is really just the Edgio benefit here of them kind of exiting the market, that it's kind of one-time bookings, kind of higher commitments there versus you guys seeing more durable tailwinds outside of Edgio? Thanks, guys.

**Ronald Wayne Kisling**

*Chief Financial Officer, Fastly, Inc.*



Yeah. I think there's a couple of drivers here, like a lot of things. I think, one, certainly the exit of Edgio does improve kind of the traffic allocation and improve the commitment level. I think our performance differentiation in a number of customers has sort of solidified our position in terms of traffic allocation where customers are willing to make that commitment. On the heels of, I think, us taking a very – a position that – if you want a bigger discount, you've got to sign up for a bigger commit. And we're seeing success from that.

**Kip Compton**

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



Yeah. I think Edgio clearly is a perhaps a one-time event in terms of the capacity shift within the industry. But I think Scott and the team have really shifted the conversation and the focus to where there is a greater emphasis on negotiating commits with those customers and that obviously helps us stabilize revenue and drive investment in the business to meet those customers' needs.

So I think there could be a one-time effect from Edgio, but I think that the focus on commitments is part of the story here and that's certainly going to continue.

**James E. Fish**

*Analyst, Piper Sandler & Co.*



Great. Thanks.

**Operator:** Your next question comes from the line of Frank Louthan with Raymond James. Your line is open.

**Frank G. Louthan**

*Analyst, Raymond James & Associates, Inc.*



Great. Thank you. So, Kip, maybe walk us through sort of how you're viewing the company coming in and maybe some broader strategic things you think that you needed to change to reach a more better growth and profitability? And do you think you have the team you need in place now, or do we expect some more management changes going forward? Thanks.

**Kip Compton**

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



No, I appreciate it. Great question. And while I'm new to the CEO role, of course, I'm not new to Fastly. I've been here for a little while previously as the Chief Product Officer and worked very closely with the executive team and

the board on our strategy and other matters across the company. I think the team will continue to evolve. I think, as our business changes and grows, we'll expect changes in our leadership teams. And I'm not here to forecast any additional imminent change, but I would just say I view it as a healthy part of the evolution of the company.

And change always brings an opportunity. And so, we look at it that way and I'm focused on building a world-class team that's oriented around executing our strategy. In terms of sort of what's next, I was here to help formulate the strategy and I believe the results this quarter show elements of the strategy working. I think it's really a matter of leaning in and accelerating the results there. There's an opportunity with the momentum that Scott's building for us to get more results on go-to-market. And I'm working with the leadership team to just increase our focus and velocity as we execute on these things.

I think we're making some progress on security. You saw the record revenue there. We certainly have big aspirations going forward. So we'll be continuing to drive that. And I think compute is this somewhat partially tapped or even untapped opportunity for the company? And we've got some ideas of how we can grow that business that we'll be able to talk about more in the future.

So, I'm excited about where the company is at. I played a role in positioning us prior to becoming CEO. And frankly, I've really enjoyed the support I've received from the board and from our leadership team and our employees as I stepped into the role.

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**Frank G. Louthan**

*Analyst, Raymond James & Associates, Inc.*

Q

Okay. That's great. And how long you think it'll be before you replace someone in Scott's position?

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**Kip Compton**

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

A

How long will it be before I replace someone in Scott's position?

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**Frank G. Louthan**

*Analyst, Raymond James & Associates, Inc.*

Q

Well, [indiscernible] (00:47:32).

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**Kip Compton**

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

A

No, I don't – I'm sorry. Yeah. Oh, no. I don't think – I think actually that – I'm sorry, that's probably not how we're thinking about it. We're elevating Scott and his direct reports will continue reporting to him and he will – and he is gaining the marketing function. So I don't anticipate having a President of Go to Market and a Chief Revenue Officer. So, Scott is going to be in this position for a long time. We're really excited about his leadership.

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**Frank G. Louthan**

*Analyst, Raymond James & Associates, Inc.*

Q

Great. All right. And Ron, thank you very much for all your help over the years. Appreciate it.

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**Ronald Wayne Kislring**

*Chief Financial Officer, Fastly, Inc.*

A

Thank you.

**Operator:** Your next question comes from the line of Rudy Kessinger with D.A. Davidson. Your line is open.

**Rudy Kessinger**

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

Q

Great, guys. Thanks for taking my question and congrats everybody in the new roles and, Ron, similar to everybody else, I'll miss working with you, and best of luck on what's next.

On security revenue, the growth rate has been rather volatile. Last year, it decelerated from 16% Q1 to 4% in Q4. Now, it's accelerated back to 15% over the last two quarters. Just any color on what's driving the volatility there and, in particular, what drove the acceleration in Q2 and how should we be modeling or thinking about security growth in the second half of this year and into 2026?

**Ronald Wayne Kisling**

*Chief Financial Officer, Fastly, Inc.*

A

Yeah, I think one of the ways to understand the revenue volatility, I think really has to do with kind of the history and what we saw in 2024. We went into the year with very high revenue concentration. We saw some big dislocations from what our historical trends were with just a handful of customers that had an outside impact – that had a significant adverse impact on 2024.

If you kind of look at the breakout that we shared, top 10 versus everyone else, you can really see the impact that that had while customers outside of the top 10 continued to grow in the mid-to-high teens. And so that created a lot of the 2024 volatility. I think what you're seeing this year is a recovery and more stability in the top 10 from some of the efforts we put in place to engage with those top 10 customers. Some of the commitments that we've been able to achieve with those top 10 customers and the success of the efforts of the go-to-market efforts that Scott's brought into in terms of accelerating new customer acquisition.

You can see that we saw a big acceleration of kind of the largest acceleration we've seen since 2023 in new customers. And while it's not going to be a straight line, we expect to continue to see increasing new customers and that will build our revenue growth rates going forward. So, I think that's really kind of the lens that we're looking at.

And I think when you look at our outlook for the second half with the raise, we brought that number up to where kind of at the midpoint we're at 10% – little better than the midpoint. But I think we are starting to see some stability after 2024.

**Rudy Kessinger**

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

Q

Okay. Got it. And then you guys have called out in the prepared remarks maybe some competitive displacements on the DDoS with the new DDoS and bot mitigation products. Could you expand on that? Maybe what vendors did you displace? Would it be the typical vendors we would think of or any more color you can share there?

**Kip Compton**

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

A

Yeah, I probably won't get into to specific deals or competitors, but I think we're seeing two patterns and perhaps this is a helpful sort of detail. Often a customer is using a third-party standalone, if you will, bot mitigation vendor.

And as we launched those capabilities on our platform, they've often done a proof of concept and consolidate that in to their Fastly relationship, and that gives them a simpler experience and better performance of doing all that processing in one platform at the edge.

The other example that I've seen a bunch of times is the presence of our bot capabilities, opening up opportunities for us to sell a broader set of the platform capabilities where perhaps we weren't able to position ourselves before. So, in some cases, customers have that as a requirement and that new product has unlocked broader opportunities for us. So those are two patterns we're seeing.

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**Vernon P. Essi**

*Vice President-Investor Relations, Fastly, Inc.*

A

All set, Rudy?

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**Operator:** [Operator Instructions] Your next question comes from the line of Jeff Van Rhee with Craig-Hallum. Your line is open.

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**Daniel Hibshman**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Hey. This is Daniel Hibshman on for Jeff Van Rhee. Kip, Ron, thanks for taking my questions. Maybe just opening, a question for Kip on your strategic priorities you're coming in. You mentioned velocity and product velocity a few times on this call. Maybe you could just expand a little bit on that, what that means to you at Fastly.

And then I think in the Q&A you also mentioned accelerating the path toward profitability and OpEx did get guided to be down in the back half and free cash flow was revised up. So, seeing some nice movement on profitability already, maybe just any thoughts on if that changes that were already – you're already making, just your thoughts on priorities with regards to profitability as well.

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**Kip Compton**

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

A

Absolutely. No. As the former Chief Product Officer, the product velocity is near and dear to my heart. And one thing we heard from a lot of our customers is they like more products and more feature releases from us so that they can do more and take advantage of those. And that's what I'm referring to. And we've had a notable increase, particularly over the last 12 months versus the prior periods in the number of new products and features that we've shipped.

In fact, I think today, we launched a new feature at our WAF for account takeover using our deception technology, which a number of customers are pretty excited about. So, both in terms of new products and enhancing our current products, we're focused on picking up the pace there and our engineering and product teams are doing a great job and are also focused on how they can find additional ways to get more value to our customers faster. And of course, it's ultimately value that we can capture as a company.

In terms of the profitability and just the trajectory we're on longer term, I think we are in a good place. We had – we're forecasting lower OpEx. I think there's some seasonal effects there. But we have been – I think as Todd spoke about and championed, making our company more efficient and making sure that we're investing where we need to, to grow, but that the investments we're making are ones that do drive growth and a good ROI.

And I think that's a journey of continuous improvement. We can always look for ways to be more efficient, but the mindset is kind of almost as an investor, not necessarily minimizing spend, but investing where it's going to make a difference for the company and making sure that that's done efficiently.

We saw improved cash collection. We saw improved gross margins. So I think that our path to profitability is clearer than it's been in a long time, certainly since I joined at the beginning of 2024. And I think the team – the leadership team is very excited about that. That's a major priority, the goal for us and it's excited, frankly, a lot of excitement at the progress we're making and we're going to double down on that. And I believe that we can drive to that goal without sacrificing key investments to enable our growth.

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**Daniel Hibshman**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Thanks. That's helpful, Kip. And then kind of a follow-up off of that for Ron, again, on the free cash flow. This is two quarters now where we've gotten the free cash flow guide increased \$10 million, so real nice at the midpoint. So real nice improvements to the guide on free cash flow. That's getting revised upward faster than the changes to the operating income guide.

So, maybe if you can just walk us through some of the mechanics there, is there any kind of change in sort of the assumptions on, like Kip just mentioned, cash collection, working capital, CapEx and whatever those factors are, do you see that as sustainable going forward? Thanks.

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**Ronald Wayne Kisling**

*Chief Financial Officer, Fastly, Inc.*

A

Yeah. Yeah. It's a good point. I think if you really dig into it, you can see that we have seen improving cash flow from operations. I think that's been an effort we've had in place, making sure we're being disciplined around payment terms, but also really increasing our engagement with customers just to drive timely payment.

Similarly, across the purchasing team, we've been very focused on efficient payment terms and cash management. I think those are some of the drivers that I think will be sustainable. It's not going to be a straight line. But, overall, we expect to continue to drive efficiency in our cash management. Hopefully continue to drive more favorable results across our cash flow relative to the P&L, which, as that improves, that's just going to be a contributor to that cash flow.

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**Daniel Hibshman**

*Analyst, Craig-Hallum Capital Group LLC*

Q

Thanks, Ron. Thanks, Kip.

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**Operator:** [Operator Instructions] And there are no further questions at this time. Kip Compton, CEO, I turn it back over you for closing remarks.

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**Kip Compton**

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

Thank you. As the new CEO, I'm honored to be leading Fastly. We're building strong momentum in the business. As you heard today, we reported record security revenue improving margins and record RPO in Q2, among other highlights.

We remain focused on accelerating growth, driving towards profitability and delivering lasting value for all of our stakeholders. I want to thank the Fastly employees, customers and investors for all of their support. Thank you so much for your time today.

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**Operator:** Thank you. This does conclude today's presentation. You may now disconnect.

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