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Fastly, Inc. (FSLY)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Corey and I'll be your conference operator today. At this time, I would like to welcome everyone to the Fastly Second Quarter 2026 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised today's conference is being recorded.

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

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

Thank you. And welcome everyone to our second quarter 2026 earnings conference call. We have Fastly's CEO, Kip Compton; and CFO, Rich Wong, with us today.

The webcast of this call can be accessed through our website, fastly.com, and will be archived for one quarter. A copy of today's earnings press release, related financial tables and supplements, all of which are furnished in our 8-K filing today, can be found in the Investor Relations portion of Fastly's website, along with the investor presentation.

During this call, we will make forward-looking statements, including statements related to the expected performance of our business, future financial results, product and services, sales and growth, strategy, long-term growth and overall future prospects. These statements are subject to known and unknown risks, uncertainties and assumptions that could cause actual results to differ materially from those projected or implied during the call. For further information regarding risk factors for our business, please refer to our filings with the SEC, including our most recent annual report filed on Form 10-K and quarterly reports filed on Form 10-Q filed with the SEC and our second quarter 2026 earnings press release and supplement for a discussion of the factors that could cause our results to differ. Please refer in particular to the sections entitled Risk Factors. We encourage you to read these documents.

Also note that the forward-looking statements on this call are based on information available to us as of today'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 and certain key performance indicators. Unless otherwise noted, all numbers we discuss today other than revenue will be on an adjusted non-GAAP basis. We do not provide reconciliations of forward-looking non-GAAP measures because quantitative reconciling of information for these measures is unavailable without unreasonable effort. Reconciliations to the most directly comparable GAAP financial measures are provided in the earnings release and supplement in our Investor Relations website and filed with the SEC. These non-GAAP measures are not intended to be a substitute for our GAAP results.

Before we begin our prepared comments, please note that during the third quarter, we will be attending the KeyBanc Capital Markets Technology Leadership Forum in Park City on August 10, the Citi 2026 Global TMT Conference on September 9 in New York, and the Piper Sandler Growth Frontiers Conference in Nashville on September 15. And we will also be hosting our Investor Day on September 22 at the Nasdaq MarketSite in New York.

Now I'll turn the call over to Kip.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Good afternoon, everyone, and thank you for joining us today. Fastly delivered another exceptional quarter, demonstrating the success of our platform strategy efforts. As customers continued to adopt more products on our platform, we posted our fifth consecutive quarter of improving net retention rate and our sixth consecutive quarter of positive free cash flow.

Revenue reached a record $183 million, up 23% year-over-year, exceeding the high end of our guidance. Gross margins hit a record 65.8% and operating income came in at $27 million, both above the high end of our guidance range. These results mark the fourth consecutive quarter of operating profit, capped by a record operating margin of 14.7%.

Our Q2 results continue a clear trend, delivering growth and profitability together. These results reflect operational discipline and a continued investment in our highest value growth opportunities. Our trailing 12-month net retention rate rose again to 117%, the highest level in over three years as customers look to our platform to support their infrastructure needs and standardize more of their stack on Fastly.

Our platform strategy is foundational to our success. We build, sell and operate a single unified platform, which means better consistency and performance for our customers and a more efficient network for us to run. It also means that when customers face a new threat or a business opportunity, they don't need to bolt on another tool. Fastly enables them to solve their problems on one flexible platform. This results in deeper customer relationships, greater wallet share, and a more durable revenue model over time. You can see that strategy working in the numbers.

Security grew 43% year-over-year, driven by cross-sell and upsell. The demand for edge threat defense, intelligence and governance is driving rapid adoption of our Security products. Solutions like DDoS Protection and Bot Management grew at triple-digit rates year-over-year. Over time, we expect our differentiated Security capabilities to represent a larger portion of the business. We integrate these newer features with our core capabilities and industry-leading NG WAF, broadening the customer footprint and wallet share with Fastly. That's our platform strategy in action, leveraging targeted capabilities in one product category to deepen relationships and drive overall platform expansion across categories.

We continue to see AI-driven traffic as a tailwind with our Compute offering emerging as an expansion engine. As customers face increasing scale and complexity they are buying more of our platform to handle these demands, weaving custom edge functions directly into their traffic flows alongside our industry-leading NG WAF. Additionally, as machine traffic and automated agents grow, tools that distinguish wanted traffic from unwanted traffic become essential. These trends contributed to our Security and other revenue growth of 46% year-over-year on a combined basis, now at nearly $200 million annual run rate.

We continued to win in our Network Services business, which posted strong 17% year-over-year growth. This is where customers choose Fastly when performance matters. This summer, our platform strength showed up on the biggest stage in the world. Major global sporting events pushed record-breaking traffic through our infrastructure. Fastly delivered reliably at scale and without missing a beat.

But performance is only part of the story. The same platform that delivered that traffic also governed it, making real-time stream by stream decisions about what should flow and what shouldn't. LaLiga, Spain's top football league, is a good example. Illegal streaming costs its clubs an estimated $700 million a year. Working directly with LaLiga, we built an AI-driven real-time detection system that identifies and shuts down pirated streams as they happen in the moment right in a request path. As the market evolves, the need is shifting from centralized AI platforms to real-time edge decisions. This kind of value-add for our customers alongside our market-leading performance is why so many of the world's top brands rely on the Fastly platform to deliver their mission-critical content.

And you can see the power of our platform in other key customer wins this quarter. Let me share a few examples. A leading fintech platform serving more than 0.5 million businesses chose Fastly following a rigorous competitive evaluation. Last year, a number of catastrophic outages put their critical partnerships at risk. The deciding factors included an increased Security capabilities, platform flexibility and resilience.

A global education technology customer suffered a significant data breach, affecting millions of user records when their power WAF failed to adequately mitigate attacks. They chose Fastly's NG WAF, Managed Security Service and Network Services to handle their application traffic without disrupting their large active user base.

A leading UK health and beauty retailer expanded their use of Fastly's platform with a multi-year, multimillion dollar commitment. The customer replaced a longtime incumbent security vendor as part of a broader platform modernization and consolidated all of their edge services on Fastly. And working through a managed service partner, Fastly now powers live and on-demand streaming delivery for a national public broadcaster in Europe.

I mentioned AI as a tailwind behind our fastest growing products a moment ago, but it's showing up well beyond that in how we think about our network, our Compute platform and where we're investing next. We shared in Q2 that AI-generated traffic is growing at roughly 6.5 times the rate of human traffic. Machines don't browse the way people do. They query, scrape or act on someone else's behalf. And that makes every request more complicated.

This means every request requires an immediate decision. Is this an authorization? Should it be cached, throttled, monetized and/or blocked? That's why we see our Security and Compute products accelerating right alongside this machine traffic. Fastly was built to be that trusted control plane for those decisions.

In an AI-powered world, our customers are moving from reactive blocking to active governance. Le Monde is a good example. They use Content Guard, part of our Bot Management solution, to set the terms for how their content gets accessed, turning what used to be a scraping problem into controlled, licensed, revenue-generating relationships. A major auto shopping platform saw AI-based traffic as both an existential challenge and an opportunity for their business. They added Fastly's Bot Management and DDoS Protection to gain visibility and control over the automated traffic hitting their platform, giving them the governance capabilities they need to run their business.

We also announced a partnership with Skyfire. Leveraging the structural shift towards agentics traffic at the edge, Skyfire uses Fastly Compute and integrates their verified agent identity and payment-backed credentials directly into our platform, transforming agent traffic from anonymous automation into accountable economic activity.

I look forward to sharing more about the evolving needs of the market, how our platform meets those needs, and how that translates into momentum in our business strategy at our Investor Day in September.

When I became CEO 14 months ago, I outlined our commitment to accelerating growth, driving profitability and delivering lasting value for our shareholders. Thanks to the trust of our customers, partners and the exceptional dedication of our team, we are delivering on those priorities, as demonstrated by delivering the highest revenue growth quarter in almost four years. We remain focused on our customers and on disciplined execution. The results this quarter, record margins alongside strong growth, show that discipline compounding. We've fine-tuned our innovation engine and are co-innovating with partners across the entire platform, driving a new level of customer value and engagement. I'm proud of this team and as optimistic as ever about the future of Fastly.

And now I'm going to hand it over to Rich to walk us through the numbers and quarter in detail. Rich?

Richard Wong

Chief Financial Officer, Fastly, Inc.

Thank you, Kip, and thank you, everyone, for joining us today. This month is my one-year anniversary since joining Fastly in August 2025. Reflecting upon my first year, I'm very proud of the progress we have made as a company. One year ago, I chose to join Fastly because I was excited by our leading technology and superior performance, with the belief that we are positioned at the right place to edge cloud at the right time as we see workloads shifting to the edge to complement central clouds. I also saw an opportunity to unlock value for our customers and shareholders by mobilizing the finance team to be true strategic partners to the business.

There is no doubt that our position has improved over the last year as we continue to partner with our large customer base and expand our platform. I've deepened the executive strength of our finance team, bringing on a new Head of Strategic Finance and a new Chief Accounting Officer. They, in turn, have filled up their talent bench, resulting in many improvements to the business from accelerated close times to providing greater financial and strategic insights to our business. These provide cross-functional financial discipline and leverage to Fastly's performance, enabling investment and optimizing the return to our shareholders. This has been reflected in our results over the last year. We have re-accelerated growth north of 20%, have generated $79 million in positive EBIT over the last four quarters and have maintained six straight quarters of positive free cash flow.

Now on to our Q2 results. I'd like to remind you that unless otherwise stated, all financial results in my discussion are non-GAAP based. Revenue for the second quarter increased 23% year-over-year to $183.3 million, exceeding the high end of our guidance range of $170 million to $176 million. This result was a record high for Fastly and was driven by continued success in our go-to-market upsell and cross-sell motions as we see customers adopt more products within our platform.

In the second quarter, Network Services revenue of $133.9 million grew 17% year-over-year, an acceleration from the prior quarter. Security revenue was $41.7 million, which represented growth of 43% year-over-year and 8% sequentially. Security now represents 23% of revenue compared to 20% in the year-ago quarter. This increased mix supports our long-term objective of building diversified, higher value business. Our other products revenue of $7.7 million grew 69% year-over-year, driven primarily by sales of our Compute products, supporting new customer requirements in AI and related areas.

Our revenue upside in the quarter was driven by increased traffic at our largest customers and, to a lesser extent, a couple of live sporting events that were episodic in nature. In the second quarter, our top 10 customers represented 37% of revenue. Revenues from our top 10 grew 48% year-over-year. Revenue from customers outside our top 10 grew 12% year-over-year. Also, no single entity accounted for 10% or more of revenue in the second quarter. A group of entities under common control as a single customer accounted for 11% of the company's revenue for the quarter.

Our large customer count, which represents customers with more than $100,000 in annualized revenue in the quarter, was 624 customers. Our trailing 12-month net retention rate was 117%, up from 113% in the prior quarter and up from 104% in the year-ago quarter. The quarter-over-quarter and year-over-year increases were due to revenue increases across a broader range of customers as they expand their use of our platform.

We exited the second quarter with RPO of $341 million, growing 38% year-over-year. The current portion of RPO was 79% of total RPO and grew 44% year-over-year. Our improved RPO continues to benefit from improved go-to-market discipline with our customer onboarding, which resulted in larger upfront commitments.

I will now turn to the rest of our financial results for the second quarter.

Our gross margin was 65.8% in the second quarter, a record high for Fastly. Gross margin was 180 basis points above our guidance midpoint of 64% and up 680 basis points from 59% in Q2 2025. The upside in our gross margin was driven by higher revenue relative to our infrastructure costs. Combined with our continued financial discipline in our cost of revenue, we believe our gross margins are sustainable at these levels. This is further substantiated by our incremental gross margin flow-through on a trailing 12-month basis, increasing to 96% in the second quarter, up from 47% a year ago.

Operating expenses were $93.7 million in the second quarter, coming in better than anticipated due to disciplined expense management and less than anticipated benefits in discretionary spend, as well as the timing of new hires being biased towards the third quarter, which I will touch upon later in the call.

We had operating income of $27 million in the second quarter, exceeding the high end of our operating income guidance range of $12 million to $16 million. As mentioned, this upside was a combination of higher revenue and resulting gross margin flow-through as well as less than anticipated operating expenses. This reflects inherent operating leverage in our business model. This is demonstrated by our operating margin expanding from negative 3% to positive 15% in the second quarter, an expansion of approximately 1,800 basis points year-over-year. This is underscored by our incremental operating margin flow-through of 79% of revenue on a trailing 12-month basis, significantly above our long-term target of 25% to 40%.

In the second quarter, we reported a net profit of $26.2 million or $0.15 per diluted share compared to a net loss of $5 million or negative $0.03 per diluted share in Q2 2025. Our adjusted EBITDA was $38.1 million or 21% of revenues in the second quarter compared to $8.9 million or 6% of revenues in the second quarter of 2025.

Turning to the balance sheet. We ended the quarter with approximately $337 million in cash, cash equivalents, marketable securities and investments, including those classified as long term, a sequential increase of $7 million over Q1 2026. We also ended the quarter with a positive net cash balance of $14 million.

Our cash flow from operations was positive $39.3 million in the second quarter compared to positive $25.8 million in Q2 2025. Our free cash flow for the second quarter was $3.6 million, representing our sixth consecutive quarter of positive free cash flow. Our infrastructure capital expenditures were approximately 17% of revenue in the second quarter. As we discussed in prior quarters, we frontloaded our 2026 CapEx to ensure we had adequate equipment, given supply chain constraints. We anticipate our CapEx spend will moderate in the back half of 2026, as I will discuss in a moment.

In summary, the first half of the year demonstrates that disciplined execution and platform adoption continues to strengthen our financial model and give us higher conviction on our 2026 guidance.

I will now discuss our outlook for the third quarter and full year 2026. 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 model is primarily based on customer consumption, which can lead to variability in our quarterly results. Our revenue guidance reflects these dynamics in our business and is based on the visibility that we have today.

As Kip discussed, our platform strategy is foundational to our success, enabling customers to solve their problems on one flexible platform. This results in deeper customer relationships, greater wallet share, and a more durable revenue model over time. The strategy is working and providing a stronger assurance in our value proposition and growth opportunities with customers.

In the third quarter, we expect revenue in the range of $184 million to $190 million, representing 18% annual growth at the midpoint. We anticipate our gross margins in the third quarter will be 65%, plus or minus 50 basis points. As a reminder, our gross margin performance is highly dependent upon incremental revenue increases or declines relative to our infrastructure costs. For the third quarter, we expect a non-GAAP operating profit of $20 million to $24 million, reflecting an operating margin of 12% at the midpoint. As I mentioned earlier, we expect head count additions along with discretionary spend to bring OpEx back to normalized growth levels in the third and fourth quarter. We expect non-GAAP net earnings per diluted share of $0.11 to $0.13.

For calendar year 2026, we are raising our revenue guidance to a range of $732 million to $746 million, reflecting annual growth of 18% at the midpoint. We anticipate our 2026 gross margins will be 65%, plus or minus 50 basis points. We are increasing our non-GAAP operating profit expectations to a range of $88 million to $96 million, reflecting an operating margin of 12% at the midpoint and highlighting our improved profitability compared to 2025 operating margin of 4%. We expect our non-GAAP net earnings per diluted share to be in the range of $0.50 to $0.54.

We continue to closely monitor supply chain dynamics, particularly regarding memory components, and have taken strategic actions to mitigate potential impact. Our software-defined infrastructure is continuously improving, typically with lower capital requirements for expansion than legacy competitors. We are also implementing server component upgrades in our fleet to efficiently expand our capacity. This structural efficiency underpins our expanding gross margins, positioning us to stay ahead of global traffic trends while maintaining strict capital discipline.

For 2026, we continue to anticipate our infrastructure capital spend will be in the range of 10% to 12% of revenue compared to 5% in 2025 as we ramp up capacity to meet our growth objectives. As discussed, this 2026 spend is frontloaded in the first half to ensure we have adequate equipment given recent supply chain constraints. We have a rigorous planning process to ensure that our capital investments align with demand. As a result, we will maintain our 2026 free cash flow guidance in the range of $40 million to $50 million.

To recap, we're seeing continued evidence that disciplined execution, growing platform adoption and a richer mix of Security and Compute are translating into stronger financial performance. Our refined strategy to focus on the power of our platform is working, and we are evaluating ways to better align our financial disclosures to our success. I look forward to sharing more at our Investor Day in September.

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: Thank you very much. [Operator Instructions] Our first question comes from the line of Jackson Ader of KeyBanc Capital Markets. Jackson, your line is open.

Aidan Daniels
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, this is Aidan Daniels on for Jackson. Thanks for taking our question. On the Network Services jump in the quarter, would love to just dig a little deeper here. 2Q seasonally hasn't been the best quarter in the past for CDN revenues. I know you mentioned some increased traffic from the largest customers. Was there a positive impact from agentic traffic driving this outperformance? And then did you experience any share gains from competitors? And I have just follow-up.

[Technical Difficulty] (00:23:28-00:23:56)

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

A

I'm sorry. We were interrupted there. In terms of agentic traffic, we don't necessarily break that out. However, we have seen signs of traffic driven by AI tool usage among some of our fastest growing accounts. And so, we do believe that AI remains a tailwind for the business and is showing up most predominantly in Security and Compute, but also in Network Services.

Aidan Daniels
Analyst, KeyBanc Capital Markets, Inc.

Q

And then just wanted to follow up on your NRR expansion.

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

I'm sorry. Can we just – I think we might had a technical difficulty. Did you hear the whole answer to that question?

Aidan Daniels
Analyst, KeyBanc Capital Markets, Inc.
Q

Maybe if we could start from the beginning [indiscernible] (00:24:43). Thank you.

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

All right. Can you hear us now all right?

Aidan Daniels
Analyst, KeyBanc Capital Markets, Inc.
Q

Yeah. All good.

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

Great. So I think there were two parts to the question. One was whether or not we thought we were gaining share in the Network Services segment and the second was whether we're seeing signs of AI or agentic traffic helping drive that growth.

On the first question, yes, we do believe that we're gaining share, particularly as we like to say where performance matters. I think there was some third-party research that's come out in the last few months that agreed with that assessment. On the AI and agentic question, we don't necessarily break that out as a distinct set of traffic. It drives demand in our existing products and across our platform. However, in looking at the traffic patterns among our customers, we identified a number of customers where AI tools and the use of AI seem to be the catalysts behind traffic growth. So, we continue to see AI and agentic traffic as a tailwind for the business across our existing products as well as products like Bot Management and DDoS to help mitigate that as well as some additional products that we'll announce in the coming months.

Aidan Daniels
Analyst, KeyBanc Capital Markets, Inc.
Q

Thanks, Kip. Good to hear both parts. I appreciate the repeat. And then just following up on the NRR expansion I know it's all up to 117%. You mentioned customers standardizing more of their full stack on Fastly. Could you unpack maybe a little more what's driving the most expansion there? Is it Security and Compute cross-sell into existing accounts, better renewal pricing on CDN or anything else maybe to highlight there? Thanks, guys.

Richard Wong
Chief Financial Officer, Fastly, Inc.
A

Yeah. When we think about our products, Jackson, it's kind of a broad portfolio that cuts across multiple products in Network Services as well as most products in the Security. I would say that the cross-sells and upsells tend to be – I think that we've had a WAF, web application firewall, and that's been doing really well. Our WAF continues to gain share and continue to grow faster than the market. And so, I think that's a pretty big driver. It's also the new products that we've launched. I think I wouldn't say new, but newer with the DDoS and Bot Management, I think those two are also picking up a lot of traction. And so, I would say Security is doing a lot. I think that on the Compute side, there is some traction there, but it's still early days. I think Kip had mentioned on the call that we're doing a lot of co-innovation with our customers on Compute and Compute@Edge.

Operator: Thank you very much. Our next question comes from the line of Frank Louthan of Raymond James. Frank, your line is open.

Frank G. Louthan
Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you. So, as far as some of the AI-related traffic, what are some of the nature of the workloads that you're having success there? And do you think you're taking share in that market or are you just seeing sort of the overall lift in demand? And then similarly for Security, what are some of the things that are driving that success in Security? Thanks.

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

A

Hey Frank, I don't know if I can comment on whether we're taking share or not specifically with respect to AI traffic because I think the data on – the size of that market and the composition of it is somewhat thin. But we do see that traffic is growing. The markets that we participate in and we certainly believe that we're taking share in those markets. In terms of workloads, there's really a variety of things across our platform. We've seen some increase in traffic related to the use of AI tools for software development. We'd also seen increase in our privacy suite of products related to agentic workloads. And so, it's really across the board. Of course, we've seen increasing adoption of Bot and DDoS as our customers look to manage the agentic and bot traffic as well. So, it's really across the board.

I'll let Rich comment on the second part of your question.

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Yeah. I think the second part of it is like what's driving Security. I would say what's driving Security really is just the complexity and the complications of traffic. As traffic gets harder and more complex, there are more and more threat actors that come along. We do have some really good products, leveraging our total networks to really do amazing things with it. I think that we have a lot of different features that allow our customers to be like either block the traffic or rate limit the traffic as well as kind of even like use AI to detect whether the traffic is good or bad. So I think I would say that AI is helping accelerate some of the Security adoption, but I would also say just the prevalence of more threat actors out there.

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

A

Yeah. And I'll comment. I mean, I mentioned it in a couple of the customer examples in my prepared remarks, but we are seeing customers looking to simplify and consolidate. And in those lot of cases, they are very happy with the performance and resiliency that they get from Fastly and they look at the effectiveness of our WAF products. And as I think you heard in my comments, in a number of cases, we picked up significant business from customers who were not happy with the effectiveness of their existing security solutions and decided to consolidate on to Fastly for the performance and resiliency and then the effectiveness of those security solutions. So, that's certainly a trend as well.

Frank G. Louthan
Analyst, Raymond James & Associates, Inc.

Q

Thanks. And if we look at the breakdown of your top 10 customers, is it generally representative of your – the breakdown between the Network Services and Security or are they more over underweighted to those? Is there some opportunity there? Thanks.

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Yeah. I mean, if you look at the top 10, I mean, 73% of our revenues today come from Network Services. And so, I would say that it's pretty close to that, I think maybe slightly little bit higher. But top 10 does buy multiple products. I think we'd mentioned in prior earnings calls that we've done a good job landing cross-sell opportunities into Security with some of our top 10 customers as well.

Operator: Thank you very much. Our next question comes from the line of Peter Levine of Evercore. Peter, your line is open.

Peter Levine
Analyst, Evercore Group LLC

Q

Great. Thanks, gentlemen, for taking my call. Maybe I would follow up with the prior question that was asked, commentary around co-innovation on the edge or within the other revenue line item. But maybe can you just walk us through what does that entail? Like, what are customers coming to you and asking for or what does that co-innovation look like and when can we see products come to market?

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

A

Sure. I mean, I think that co-innovation takes a lot of forms and it's something that we had as sort of the foundation of our product development process. It's working with some of our more innovative customers on their business problems and building sustainable solutions that we believe have the potential to then become market-leading products. I mentioned I think a couple of examples during my prepared remarks. LaLiga perhaps is a good a good example where we co-innovated with them on a way of dealing with some pretty thorny piracy problems using AI technologies in those tricky situations where pirates are going to great lengths to hide their streams and deliver content illegally through our platform. And using some AI technologies, we were able to identify and stop those. And that anti-piracy type technology, as you can imagine, is of great interest to many of our customers.

We're also engaged in a number of co-innovation projects with different customers around AI and agentic traffic. We'll say more about that in the coming months. But suffice to say that we really think that we're our best when we're working shoulder to shoulder with our customers on business problems and applying the capabilities of our platform to solve them and then taking us to market.

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Yeah. The only thing I'd add on that is I think if you think about where we've won in the past, we've always won where performance matters. Our technology, given where it's at, we're very good co-innovation partner to these customers because these are the more complex technical customers who need massive amounts of support and innovation with them. And so, I think those are the opportunities that are really in the future.

Peter Levine
Analyst, Evercore Group LLC

Q

Thanks. And maybe, Rich, a follow-up there. As you think about some of your CDN competitors and the investments they're making around their infrastructure, maybe help us understand, if we look out over the next one, two, three years, how do you envision the edge compute business, what does it look like and how much of an investment you guys need to put forth to kind of maybe keep up with some of this demand that potentially you see in the pipeline today?

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

A

Yeah. I'll start and comment a little bit about on the trajectory of the Compute business and Rich can comment on how we're thinking about the investment needs there.

We're focused on what I'll call a true edge compute business. We're not building regional data centers or spending a lot of money on capital outside of our world-class, high-performance global edge network. And we're really focused on the use cases where being able to process that information or run that workload at the edge really makes a difference. So I think that's one of the things you see is maybe a difference between us and some of our competitors.

We also run a single network. So, Rich does not have in his spreadsheet a separate line for the capital for Compute. We run everything on a consolidated platform on a global basis, and that means that we're able to use Compute resources, for instance, that may not be fully utilized by Network Services or Security workloads to drive Compute workloads. And so I think that's one of the reasons why we've been able to be a little bit more capital efficient. That said, we're committed to driving growth in the business. And where we need to make investments, we will. And I think you saw our CapEx tick up this quarter, as we said it would, for our frontloaded approach to capital this year. But we will make the investments we need to, to drive growth in the business.

Operator: Thank you very much. Our next call comes from the line of James Fish of Piper Sandler. James, your line is open.

James E. Fish
Analyst, Piper Sandler & Co.

Q

Hey guys. I'm just getting asked here in terms of – obviously, you guys did a phenomenal job at the World Cup. I wish our US team would have done a little bit better. But can you walk us through what the impact of World Cup was to Q2 and on the Q3 guidance kind of given that split as well as that, we have that seasonality shift of prime day into Q2 here. Just can you walk us through some of those events that you saw that really helped traffic?

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Yeah. Jim, thank you for asking that question. I would say that for Q2 with our prepared remarks, we had $10 million upside to the guide midpoint that we had. I think a little bit less than half was driven by the episodic nature of the business. Episodic meaning partly World Cup. We also had a few – another live event on the White House Lawn. We also had a few other customers have one-time activities. And so, think of that as a little bit less than half as driving the episodic activity. I would say that you strip that out and you say, look at the Q3 guide and the Q3 guide being up sequentially and you take that into account, I think it's back to kind of normal seasonality between Q2 and Q3.

The only other thing to note is that when you look at World Cup, 75% of the games happened in Q2 and only 25% will happen in Q3. And so, that kind of goes into the forecast that we have. And then on the viewership perspective, about two-thirds of the games are viewed in Q2 and about a third in Q3.

James E. Fish
Analyst, Piper Sandler & Co.

Q

Perfect. Thanks for that extra detail there, Rich. And maybe just as we think about Security penetration, you guys have done a good job here in terms of the packaging. But any update as to how we should think about penetration on Security with more than one product as well as north of two products as it seems like you guys are benefiting of consolidation? Thanks, guys.

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Thanks, Jim. Yes. I mean, Security is still – you can tell with the numbers, it's a $42 million Q2 number. We still have rooms to grow. Given that $42 million, we will continue to be market share takers. Our WAF has I think been updated over the last two years. And I think with the launch of DDoS and Bot Management, I think that we're going to continue to be big market share takers in Security. I think the multi-product disclosure question is a very interesting one. And I think that without saying too much, stay tuned for our Investor Day coming up in September.

Operator: Thank you very much. Our next question comes from the line of Param Singh of Oppenheimer. Param, your line is open.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Hi. Thanks for taking my questions. So, first, really good to see the strength in Security. Wanted to understand how much of your installed base already uses your DDoS and Bot Management and if you could quantify that in terms of an innings and how much upside you see just from cross-sell versus selling into new opportunities. And then I have a follow-up.

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

A

Great questions. DDoS and Bot are newer products for us. So I would say maybe second inning. In terms of the penetration there, we're seeing – I think I mentioned in my prepared remarks, we're seeing triple-digit growth in those two products right now. So, we're excited about the increasing penetration of those, and our customers are finding them directly responsive to some of the AI traffic opportunities and challenges that they're finding.

Param Singh
Analyst, Oppenheimer & Co., Inc.

Q

That's great. Second question, want to understand a way to think about agentic AI traffic, right. I mean, it benefits you across the entire platform, there's Compute, there's different Security modules, including API security. Obviously, network traffic also benefits. Is there a way to quantify or think about how much upside we could see per unit traffic on agentic AI versus, let's say, your traditional bot traffic or human traffic? Thank you.

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

Yeah. It's hard to say. I wish I had a quantitative answer for you there. What we're seeing is probably a bigger impact in the Compute and Security businesses. The Network Services business at the moment, that is partially driven I think by the fact that the – whether the requests per second or volume of requests can be extremely high. We talked about it growing 6.5 times faster than human traffic. The bandwidth which Network Services tends to have as a billing component, it's a little bit lower than streaming events. And so, we're seeing greater effects in Security and Compute, although we are absolutely also seeing effects in Network Services. And just given the growth rate of that traffic, we believe that over time it becomes significant for the business.

Operator: Our next question comes from the line of Rudy Kessinger of D.A. Davidson.

Rudy Kessinger
Analyst, D.A. Davidson Companies
Q

Hey guys. Great. Thanks for taking my questions. Your top 10 customers as a percentage of revenue increased 3 points versus Q1. I know, obviously, some of the World Cup live events contributed to that. But they were 87% of your quarter-over-quarter revenue growth while at the same time the growth in your all other customers revenue decel-ed about 6 points year-over-year versus Q1. So, I guess, I'm interested on both fronts. Just as you look at the second half of the year, what kind of concentration are you expecting from the top 10 customers in Q3 and Q4? And then, on the flip side, the growth in all other customers, are you expecting that to bounce back up in the second half or what's your expectation there?

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

It's a good observation. I mean, I think we clearly had – we're really pleased with the growth overall this quarter which at 23% is the fastest in four years. And we think that shows that the go-to-market transformation that Scott Lovett and his team have been driving and that we've been talking about for a bunch of quarters now is making progress. That said, there's more work to be done there. We're not done with our go-to-market. And you saw us bring on, for instance, the new Chief Marketing Officer about a quarter ago, and Scott and his leadership team continue to make changes and improvements in various parts of the organization and the process and how we're structuring our go-to-market investments. And I think it's fair to say that we'd like to see more new logos and more growth outside of those top customers to complement their robust growth that we're seeing with the top customers. The last thing I'll say is, sometimes there's some confusion about the large customers and economics. I think our record gross margins this quarter shows that we're able to serve all of our customers very profitably.

Richard Wong
Chief Financial Officer, Fastly, Inc.
A

And Rudy, I think the second part of your question was around where do we see it going in the second half of the year. I would say that 37% in this current quarter. I think the impact that Joan and Scott – that transformation is still going on. And we do think that it will take a little bit time. I wouldn't be surprised given the strength of our top 10 customers and even the top 20 customers who really love the performance that we've been giving them. I wouldn't be surprised if the 37% kind of stays there or maybe picks up a point or two.

Rudy Kessinger
Analyst, D.A. Davidson Companies
Q

Okay. Got it. Super helpful. And then just on AI traffic, I mean, look, you guys are obviously tracking it. You said it's growing 6.5 times faster than all other traffic. So, I mean, what percent of the traffic on your network today is coming from AI traffic?

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

A

We don't have – I mean, we track the growth of it. I don't have a breakout that I can share with you at this time. We do believe it's relatively modest in a lot of parts of our business, but rapidly growing.

Operator: Our next question comes from the line of Fatima Boolani of Citi. Fatima, your line is open.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Q

Good afternoon. Thank you for taking my questions. Kip or Rich, jump ball for either one of you. You've talked about the pricing vector and the volume vector in a pretty explicit detail for the last several quarters. So I was hoping to revisit what you're seeing from a traffic, so non-AI traffic growth perspective and also the realization from a pricing perspective, a lot of your peers have either dissipated and/or are raising prices. So I wanted to understand what your response to that externality is. Are you raising prices as well? Has that been a contributing factor to the gross profit accretion? I'd love to get maybe more of a granular update on how you're thinking about those two vectors and how to internalize that in that acceleration you saw in the Network Services business, understanding that about half of that was more episodic, but would love to get a little bit more detail on kind of the structural inputs there. And then I have a follow-up, please.

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Sure. So, pricing in Q2, I'd say, it was very consistent with Q1 and even the prior year Q4. We are in a very kind of rational pricing environment with really rational players since the exits. Price erosion, I would say, would still be in the kind of the mid-single-digits, consistent with the last quarter. And I think our traffic growth continues to be in the low like 20% range. I just want to also remind you that like when we talk about price erosion, this is Network Services divided by the total traffic served. And what tends to happen with that is, because it's an aggregate number, it's kind of like depends on the customer mix and how it's going. The price erosion that you see is kind of based on also volume discounts that we get. As long as these customers continue to add volume to our network, they actually might hit the next pricing tier discount that we give them. So, even though we're saying there's a mid-single-digit price erosion, a lot of it's due to hitting the next volume tier.

In terms of like what we're doing about pricing given what our competitors are doing or what Akamai had announced that they were doing, we feel like it's really important to continue to honor the commitments that we have. We have no plans to do kind of surcharge pricing on that. When we look at renewals and when the renewals come up, we don't make unilateral rules kind of around it. We actually look at the customer, the customer value that we provide to them as well as what they're buying from us with the goal of really just unlocking more value and doing that on a case by case basis. So, the conversations tend to be more about how we help our customers using the full suite of our products and less about like unilateral rules that we set around where the prices go.

Fatima Boolani
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. And just a follow-up on net retention rate. Obviously, very strong in the quarter. I'm curious to get your thoughts on the trends from here. Is this a high water mark? Can we push the envelope and see a better yield on this continuing to expand, especially as you lap some very strong revenue performance from last year and appreciating the net retention rate metric is a trailing 12-month metric? So, how should we think about this water mark continuing to increase, if at all? Thank you.

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Yeah. Thank you for that. Yes, this is our fifth consecutive quarter of increasing NRR, so we're really proud of the progress that we've made here. I think Scott and the go-to-market transformation that Kip mentioned that Scott's doing in his organization has really helped and it's helped him not just with the metrics, but also the customer growth that they're showing us. We don't necessarily guide where NRR is going to be, but I will say that our customers continue to grow with us, and we're really pleased with improvement that we're seeing. You're absolutely right to call out that coming up Q4, it will be a harder comp given the strength of our Q4 2025. And so, definitely something to kind of factor in as you think about building your model out. But I would say that customers continue to grow with us because they're happy with what we are providing them.

Operator: Thank you very much. [Operator Instructions] Our next question comes from Jeff Van Rhee of Craig-Hallum Capital Group.

Daniel Hibshman
Analyst, Craig-Hallum Capital Group LLC

Q

Hey guys. This is Daniel on for Jeff. Just on the hiring that you mentioned, Rich, that it slipped from Q2 into Q3 and maybe some other expenses there. Maybe if you could just expand a little bit on what those functions, what those investments are that you're planning on making.

Richard Wong
Chief Financial Officer, Fastly, Inc.

A

Yeah. From a hiring perspective, the areas that we've highlighted in the past on our earnings calls have been around the APAC go-to-market. I think a year ago, we were serving a lot of our APAC customers from San Francisco and our office in London. And so, the time zones were just way off. I think that we want to really improve that quality of the relationship with our customers and have more on the ground there. And so, we announced that we hired Nicola, who kind of leads up our APAC function. I think that we're also talking about more recent investments this year around our marketing efforts with Joan and bringing our CMO. With Joan and the CMO, I think the focus on our go-to-market transformation has been how do we maximize the value we create for some of our largest customers. And what you're going to see with the shift with Joan is kind of like how do we continue to add more logos, how do we continue to like go down and create value for that next set of customers. And so, I would say those are the two kind of big areas of investment that we're making.

Daniel Hibshman
Analyst, Craig-Hallum Capital Group LLC

Q

That's helpful, Rich. And then, Kip, on the top customers and some traffic share shifting towards you, just any thoughts on what's driving that if to Fatima's question that had to do with pricing or any other factors that have to do with traffic gain, specifically share gain. Thanks.

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

A

Yeah. Thanks for the question. I think there's a few things. The two that come up most frequently are reliability or resilience. We certainly have instance where we've picked up business because incumbent solution had issues in terms of an outage or other reliability issues. The other area is performance. So we consistently hear from our customers who are adding traffic that our performance is better than our competitors. I would say that with respect to pricing, obviously, that's a factor. You have to be market competitive in terms of pricing, but it's not generally the way that we're picking up traffic by discounting or lowering prices. We believe that the effectiveness of our Security products and the performance and resiliency of our overall platform is the dominant thing driving people to switch.

Operator: Thank you. At this time, I am showing no further questions, and I would like to turn it back to Kip Compton for closing remarks.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Thank you for your questions and your interest in Fastly. We're looking forward to seeing you at our Investor Day on September 22 at the Nasdaq MarketSite in New York. I want to thank our Fastly employees for all their contributions, our customers for their trust and partnership, and our investors for their continued support. Thank you.

Operator: Thank you for your participation in today's conference. This does conclude our program. You may now disconnect.