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Fastly, Inc. (FSLY)

Q1 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name Carmen and I'll be your conference operator today. At this time I would like to welcome everyone to the Fastly First Quarter 2026 Earnings Conference call. At this time, 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.

And I would 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 first quarter 2026 earnings conference call. We have Fastly CEO, Kip Compton and CFO, Rich Wong with us today. The webcast of this call can be accessed through our website fastly.com and will be archived for one quarter. A copy of today's earnings press release, related financial tables and supplement, all of which are furnished in our 8-K filing today, can be found in the Investor Relations portion of Fastly's website, along with the Investor presentation.

During this call, we will make forward-looking statements, including statements related to the expected performance of our business, future financial results, product 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 first quarter 2026 earnings release and supplement for discussion of the factors that could cause our results to differ. Please refer in particular to the sections entitled Risk Factors. We encourage you to read these documents. Also note that the forward-looking statements on this call are based on information available to us as of today's date and 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 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 second quarter we will be attending the William Blair 46th Annual Growth Stock Conference in Chicago on June 2, and the D.A. Davidson 2026 Technology Consumer Conference in Nashville on June 11. And also, mark your calendars for our Investor Day, taking place on September 23 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. We had a great start to the year at Fastly. In Q1, we delivered \$173 million in revenue, up 20% year-over-year and near the high end of our guidance range. Fastly's value proposition is resonating with our customers, driving strong performance and growth in security and compute. Our focus on traffic engineering and platform efficiency continues to deliver results with another quarter of record gross margins.

Security growth accelerated to 47% year-over-year and represented 22% of our total revenue. Our industry-leading WAF continues to perform well, and we're also seeing increasing momentum across our portfolio. In fact, among instances of security product sold to new customers in the quarter, almost half were of our newer products, DDoS protection, bot management and API discovery and inventory. We believe these are clear signals that our broader security suite is opening opportunities for wallet share expansion with existing customers while attracting new customers to the Fastly platform.

Increased demand for our compute offering drove the other category up 67% year-over-year, marking our largest quarter-on-quarter revenue step up ever in this category. We expect continued momentum in compute as customers address increasingly demanding edge workloads and prove out high value AI use cases.

On a combined basis, security and other saw impressive growth of 50% year-over-year and we anticipate these product lines will exceed the \$200 million annual run rate milestone by late 2026.

In network services, our platform's superior performance, reliability and value are driving continued share gains and delivered 11% year-over-year growth in the quarter, roughly double the market growth rate. We believe the Fastly platform's appeal is fueling momentum across the portfolio as customers increasingly prioritize secure, reliable and innovative solutions where performance matters.

Our go to market execution continues to deliver strong results, including growth in new customers across key verticals in Q1. At the same time, our continued expansion within our existing base remains robust and drove LTM NRR to 113% as Rich will discuss later in the call.

We also saw broad based strength year-over-year across all geographies. We are continuing our investment in APJ, highlighted by the recent opening of our new office in Singapore. Following key leadership hires in Q1, we remain committed to scaling our regional presence with additional strategic talent this year.

To further accelerate the momentum of our go-to market transformation, we hired Joan Jenkins as our new Chief Marketing Officer. Joan brings over two decades of experience leading global marketing organizations at world class companies, including Informatica, Drupa, Oracle and Cisco. Joan has a proven track record of building high performing teams, driving category leadership and importantly, strengthening the AI narrative to drive growth. Joan will be instrumental in bringing the Fastly platform story to a global audience, and we are excited to have her on the leadership team.

Turning to AI, we see the rise of autonomous agents as a long-term growth driver. The edge has become critical for scaling and securing AI across multi-cloud environments. Fastly's flexible, programmable platform is built for this moment.

For our customers, traffic generally passes through the Fastly platform regardless of where agents are hosted. We are co-innovating with them to secure and scale their AI use cases and helping them manage and optimize a massive new wave of automated traffic. AI bot management is an early example of this. Most importantly, this strategy is working. It is actively building our pipeline. As a result, we believe AI is a tailwind for our business.

Now let me shift gears and provide details on some outstanding customer wins in Q1, including several seven figure deals. We closed a multi-million dollar ARR full platform win to support a large social media platform's API and video-on-demand operations. By meeting rigorous availability and security standards, we mitigated downtime and data breach risks and enabled 24/7 continuity for millions of users.

To enhance user trust, a privacy first browser customer leveraged our platform to power a native in-browser VPN. The Fastly platform enabled them to fulfill their core privacy promise critical to their brand at global scale and support long term user retention. A global social media corporation chose Fastly and a critical cross-sell security win. After a high-profile industry outage, the customer turned to Fastly and established a reliable partner to help secure its global API traffic. By adding Fastly, the customer reduced their infrastructure risk, improved reliability and supported uninterrupted platform availability. Lastly, a multinational tech company chose Fastly for our network, security and privacy offerings to accelerate and secure their critical workloads.

We're also seeing momentum in AI bot management wins in conjunction with our leading NG WAF offering, including an enterprise cloud storage provider replaced a fragmented legacy setup by consolidating app security and delivery on the Fastly platform. Deploying our next gen WAF and advanced bot management provided robust, scalable security compliance without sacrificing performance.

Facing daily malicious AI bot traffic, a long-standing media customer added Content Guard, a new product in the Fastly security portfolio introduced this quarter to protect their intellectual property without compromising the reader experience.

A leading digital payment conglomerate expanded its Fastly footprint by adding 10 new products and services on our platform. With this expansion, they maximized network availability, safeguarded revenue and enabled 24 by 7

availability against cyber incidents. We were especially pleased to see a partner-enabled deal with a Japanese financial services provider. Working through a regional partner offering 24/7 local support, this customer chose the Fastly platform to enable and secure a critical international expansion. Through the adoption of Fastly security and network services offerings, the customer was able to build a highly reliable, compliant infrastructure for its regulated business critical payment systems. This is an example of our international go-to-market expansion at work.

As these wins illustrate, our flexible platform and continuous innovation, uniquely positioned Fastly to capture growing AI demand and our expanded security portfolio directly drives customer wins and growth. Highlights of our expanding security portfolio from Q1 include Content Guard, managing the exploding AI bot landscape requires more than just a simple switch. It requires continuous intelligence. We launched Content Guard to give publishers precise control over access to their content.

Leveraging Fastly's pre-cache inspection, customers can stop unauthorized AI agents without sacrificing the speed or performance of their authorized traffic. This unmatched visibility provides the critical data our customers need to secure and monetize their intellectual property.

API security, as AI accelerates co-delivery, it creates security blind spots through shadow APIs. We've addressed this customer need by enriching our web application API protection portfolio, enabling enhanced API discovery and inventory tools. Automated API cataloging gives enterprises continuous at-scale visibility to secure their ecosystems without slowing developer velocity.

Fastly Agent Toolkit, we released a toolkit that equips AI coding agents with Fastly specific skills. This toolkit accelerates the customer development lifecycle, enabling customers to build, deploy and secure edge services faster and with expert level precision, ultimately driving quicker time to value on the Fastly platform.

We also enhanced our compute and security offerings by adding support for additional programming languages. This completes the core suite of languages requested by our enterprise customers, extending our premium security layer to wider set of edge applications.

Given these highlights, we are proud that Fastly was named one of only two leaders in the Forrester Wave for Edge Development Platforms. Fastly also earned a perfect score for innovation and was the only vendor to receive a top five out of five rating for workload and network isolation as well as observability. This recognition underscores our platform's differentiated strength, built in resilience and the observable, actionable insights we deliver to customers.

Additionally, Fastly was the only company to receive a halo designation, highlighting superior customer feedback and our continued commitment to delivering business value for our customers.

Next month marks my first year as CEO of Fastly and I'm incredibly proud of what we have accomplished. We have a leadership team in place that is deeply committed to our core mission making the Internet a better place where all experiences are fast, safe and engaging. We believe our platform is the gold standard for flexibility and resilience without compromising performance. We see our story resonating with the market and we are delivering tangible value through our expanded portfolio and relentless customer-centric approach. As we scale, Fastly is positioned to drive better business outcomes for our customers and long-term value for our shareholders.

Rich will now walk through our Q1 financial results and guidance in more detail. Rich, over to you.

Richard Wong

Chief Financial Officer, Fastly, Inc.

Thank you, Kip, and thank you, everyone for joining us today. I'd like to remind you that unless otherwise stated, all financial results in my discussion are non-GAAP based.

Revenue for the first quarter increased 20% year-over-year to \$173 million coming in at the high end of our guidance range of \$168 million to \$174 million. This result was a record high for Fastly and was driven by continued success in our go-to-do market upsell and cross-sell motions with our expanded product platform, highlighted by strong security momentum.

In the first quarter, network services revenue of \$126.2 million grew 11% year-over-year. Our typically flat Q1 revenue seasonality was amplified this year by a record breaking Q4. Despite the seasonality and strong Q4 result, we delivered quarter-over-quarter sequential revenue improvement in Q1.

Security represented 22% of revenue or \$38.8 million, both record levels. This represented growth of 47% year-over-year, our fourth consecutive quarter of accelerating security revenues and 9% sequentially. This was due to the expansion of our security product portfolio, which has resulted in larger seven figure wins in the first quarter.

Additionally, we are seeing new security wins expanding beyond our WAF product and into DDoS protection, bot management and API discovery inventory. This sets us up very well for long-term growth opportunities with new and existing customers.

Our other products revenue of \$8 million grew 67% year-over-year, driven primarily by sales of our compute products. As Kip mentioned, other revenue grew a record \$1.6 million quarter-over-quarter as we are seeing momentum in our compute revenue driven by new customer requirements in AI and related areas.

In the first quarter, our top 10 customers represented 34% of revenue and grew 25% year-over-year. Revenue from customers outside our top 10 grew 17% year-over-year. Also, no single customer accounted for more than 10% of revenue in the first quarter. No affiliated customers that are business units of a single company generated more than 10% of the company's revenue for the quarter.

As we mentioned in our previous earnings call, we have made changes to our customer metrics. Given that typically over 90% of our revenue has historically been generated by our large customers, formerly referred to as enterprise customers in prior reporting periods, we believe it is a more meaningful metric to track our customer acquisition compared to total customers. Thus, as previously mentioned, starting this quarter, we will no longer disclose our total customer count on a go forward basis. Our large customer count, which represents customers with more than \$100,000 in annualized revenue in the quarter, was 634 customers.

Our trailing 12-month net retention rate was 113%, up from 110% in the prior quarter and up from 100% 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. Note that the LTM NRR is shifting from primarily being driven by our largest customers to now extending into our mid-market customers.

We exited the first quarter with record RPO of \$369 million, growing 63% year-over-year. This is our fourth consecutive quarter of accelerating RPO. The current portion of RPO was 75% of total RPO and grew 77% 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 first quarter. Our gross margin was 65.1% in the first quarter, a record high for Fastly. Gross margin was 110 basis points above our guidance midpoint of 64% and up 780 basis points from 57.3% in Q1 of 2025. This outperformance was primarily due to a 190-basis point one-time benefit from a change in accounting policy regarding server useful life to align with industry standards.

Our incremental gross margin flow through on a trailing 12-month basis increased to 89% in the first quarter, up from 54% a year ago. Operating expenses were \$93.5 million in the first quarter. OpEx was in line with our expectations for increased expense levels as we encounter a seasonal payroll impact in the first half of the calendar year. We continue to execute with OpEx spend discipline while balancing our growth investments and head count.

We had operating income of \$19.1 million in the first quarter, coming in above our operating income guidance range of \$14 million to \$18 million. We intend to continue to drive leverage in our operating results as we scale our revenue. This is demonstrated by our operating margin expanding from negative 4% to positive 11% in the first quarter, an expansion of approximately 1,500 basis points year-over-year. This is underscored by our incremental operating margin flow through of 68% of revenue on a trailing 12-month basis, significantly above our long-term target of 25% to 40%.

In the first quarter, we reported net profit of \$22.9 million or \$0.13 per diluted share compared to a net loss of \$6.6 million or negative \$0.05 per diluted share in Q1 of 2025. Our adjusted EBITDA was \$29.5 million or 17% of revenues in the first quarter, compared to \$7.8 million or 5% of revenues in the first quarter of 2025.

Turning to the balance sheet, we ended the quarter with approximately \$330 million in cash, cash equivalents, marketable securities and investments, including those classified as long term, a sequential decrease of \$31 million over Q4 2025. This was primarily driven by the retirement of our current portion of long-term debt totaling \$39 million that became due in March 2026.

Our cash flow from operations was positive \$28.9 million in the first quarter compared to positive \$17.3 million in Q1 2025. Our free cash flow for the first quarter was positive \$4.1 million, representing a \$4.1 million decrease from \$8.2 million in the Q1 2025 quarter. This was primarily due to a year-over-year increase in infrastructure spend of \$18.4 million, offsetting an operating cash flow increase of \$11.6 million.

Moving to our CapEx plans and strategy. Last quarter, we shared that we will focus only on infrastructure capital expenditures and remove capitalized internal use software, which is not a meaningful indicator of our capital spend. We believe this change more accurately represents the inherent capital costs to growing our business and more aligns reporting to our peers. Our infrastructure capital expenditures were approximately 12% of revenues in the first quarter. As we highlighted in our last earnings call, approximately \$10 million in CapEx was pushed to 2026. This delay in CapEx resulted in our Q1 infrastructure CapEx spend coming in at the high end of our 10% to 12% full year expectation. Normalizing this timing impact, infrastructure CapEx would have been 6% of revenue in the first quarter.

I will now discuss our outlook for the second 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, we saw revenue strength from successful upsell and cross-sell motions, highlighted by new customer velocity and our bookings across the platform. Additionally, our newer security features are proving to be strong vectors into existing and new customer wallet share, supported by compute and network services growth.

In the second quarter, we expect revenue in the range of \$170 million to \$176 million, representing 16% annual growth at the midpoint. We anticipate our gross margins for the second quarter will be 64% plus or minus 50 basis points. As a reminder, our gross margin performance is dependent upon incremental revenue increases or declines, as demonstrated by our improving gross margin through 2025 on accelerating revenue growth. It is also dependent on our infrastructure spend levels, which will serve as a modest headwind in 2026 as we invest in our platform capacity.

For the second quarter, we expect a non-GAAP operating profit of \$12 million to \$16 million, reflecting an operating margin of 8% at the midpoint. We expect a non-GAAP net earnings per diluted share of \$0.05 to \$0.08.

For calendar year 2026, we are raising our revenue guidance to a range of \$710 million to \$725 million, reflecting annual growth of 15% at the midpoint. We anticipate our 2026 gross margins will be 64% plus or minus 50 basis points.

We are increasing our non-GAAP operating profit expectations to a range of \$58 million to \$68 million, reflecting an operating margin of 9% 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 \$0.27 to \$0.33.

We are closely monitoring supply chain dynamics, particularly regarding memory components and have taken strategic actions to mitigate potential impact. Our software-defined infrastructure is continuously improving, typically with lower capital requirements for expansion than legacy providers. 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 our capacity to meet our growth objectives. As demonstrated in Q1, we believe the spend will be front loaded to ensure we have adequate equipment given recent supply chain constraints. We are actively monitoring our capacity plans relative to demand in this dynamic environment, and may increase our capital infrastructure spend in the back half of 2026. As a result, we maintain our 2026 free cash flow guidance in the range of \$40 million to \$50 million.

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. [Operator Instructions] As a courtesy to other analysts, we ask that you please keep your questions to two. One moment for our first question. It comes from Jackson Ader with KeyBanc Capital Markets. Please proceed.

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks for taking our questions, guys. First one is on network services. It came in kind of light of our and I think consensus expectations. So just curious, what was the driver there to the pretty big material slowdown in the year-over-year growth? And then also like, can we get an update on what role agentic use of the Internet is playing in your kind of core network services and maybe even the attach rates for security? And then I have a quick follow up. Thank you.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

...first question, and Kip answer the second part of it. I want to remind that Q4 was particularly strong. We had particular strength in network services in Q4 for two primary reasons. We had a gaming download that was overperformance where we did see record traffic in Q4. And then we also had a seasonally strong e-commerce online holiday shopping. And so despite that strength of Q4, we did see a little bit of a dip. But it's not related to pricing. It's really just the seasonality that we would normally see in the business.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, I would just add, we've not seen a material change in the pricing environment. And I think in Q4, we mentioned that we saw stronger than expected seasonality. And of course, coming off of that, you might expect a little bit more of a drop out of that seasonality after all the seasons do change.

On agentic, we're seeing tailwinds across different parts of our business. Certainly in network services, there's a volume component that we believe is being driven by agentic traffic. In terms of security attach, frankly, it may be more pronounced in the security part of our business as we have customers looking to protect AI workloads and provide privacy capabilities to agentic workloads and AI cloud compute use cases that require privacy. So we are seeing significant security uplift that I think we could attribute to those trends. Likewise on compute. So we see kind of an increase in volume over time in network services, but more specific attach in some of those other businesses.

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay, cool. And then you guys mentioned pricing a couple of times. I know that some competitors in the network services market are explicitly raising prices because of the memory component prices that are impacting you and others. I'm just curious, what is your current strategy on maybe passing some of those component pricing on to your customers or whether you're taking this as an opportunity to be a little strategic on price? Thank you.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Sure, Jackson. From a Q1 perspective, pricing environment was very similar to Q4. I think in the last earnings call, I mentioned a Q4 kind of price erosion in the mid-single digits. We did see very similar mid-single digits in Q1.

I think a good reminder is that price erosion is a year-over-year metric. And as customers spend more on our platform and as they increase the volumes, they're actually unlocking additional volume discounts and even the cross-selling. So we're actually going to naturally see some of the price erosion.

Also another reminder is that this only applies to our network services business. That phenomenon is not on our security or our compute business. And so we continue to focus on the value we create for our customers and the pricing discipline reflects this.

With regard to what Akamai is doing and what we're doing, we feel it was the right thing to do was to maintain the pricing that we negotiated with our customers and we're honoring the contracts that we have with our customers. And as they continue to unlock those volume discounts, we are going to continue to honor that. We think it's the right thing to do from a customer relationship perspective.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, I would just add maybe two things. First of all, of course, we see pricing changes when we experience renewals with our customers, not on a continuous basis. So there is some lag in us seeing changes in market pricing just driven by when customers renew and that is the time when prices are negotiated or potentially changed, not generally mid-contract.

So if you think about actions that others have said they're taking in the market starting in April, we're very closely monitoring that. We've not seen a change in the pricing environment yet, but it's conceivable that those changes are simply going to take a few more months to filter through the market as others have renewals and as our customers' renewals come up as well.

The other thing I'll add, we've said, and I'll say again, that we believe that we have a more efficient platform. It's a more modern platform and I think if you look at the capital intensity of our business compared with some of the other similar platforms out there, you can see that it is more efficient. That does, in our view, give us a potential sort of structural advantage in an environment with rising component costs. They certainly affect us, but it appears likely that it may affect us less than our competitors, and so we may not have as many cost increases that we need to pass through to customers.

Jackson Ader

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. All right, that's interesting. All right. Thank you very much, guys.

Operator: Thank you. Our next question comes from the line of Frank Louthan with Raymond James. Please proceed.

Frank G. Louthan IV

Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you. Two quick ones. What is the percentage of your revenue that has revenue commitments with it now? The first question. And the second one, your network is deployed largely in Equinix and DLR data centers or something similar with powers and connectivity. Is there a reason that you could not facilitate distributed compute nodes and GPUs combine with your network delivery out of those? And is that something you're pursuing? And what would it take to have a product like that? Thanks.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, Frank, I'll take the first one and I'll let Kip take the second one. In terms of the kind of revenue commitment, I think the best number to really point you to is the current portion of RPO. So we mentioned on the earnings call that we had RPO \$369 million, which grew 63% year on year. The current portion represents the next 12-month component of that. That was 75% of the total. So taking 75% of that, it's \$275 million as a next 12-month commit. And that actually – if you look at current RPO on a year-to-year basis, our current RPO is growing 77% year on year.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

So to your question on GPUs and the opportunity that our global network presents there, we're staying in very close contact with component vendors, including in the GPU space and looking strategically at that market. The observation I'd make is our network, as most of our peers' networks, is highly distributed around the world. And we don't concentrate as much capacity and compute power in a single location as, for example, a centralized cloud does.

And when training was the primary driver of GPU demand, with training being extremely large scale, that meant that our network was not well positioned to drive training and therefore GPU-based demand. As we are seeing, and I think many in the industry are seeing, the workloads and the focus shift from training to optimal inference and how different chip architectures can help with very high performance and highly efficient inferencing, that may very well open up a bigger opportunity for us, given the way our network is built and given how software-defined it is. So that is, yes, absolutely something that we're tracking very closely.

Frank G. Louthan IV

Analyst, Raymond James & Associates, Inc.

Q

Great. Thank you very much.

Operator: Thank you. Our next question comes from the line of Charlie Zhou with Evercore. Please proceed.

Charlie Zhou

Analyst, Evercore Group LLC

Q

Hi, guys. Thank you very much for taking my question. This is Charlie for Peter Levine from Evercore. It was great to see the step up in compute revenue this quarter. Rich, could you maybe help us frame how we should best think about the trajectory of that business from here? Particularly what needs to happen for compute to become a more meaningful contributor to overall growth?

And Kip maybe, could you walk us through some of the use cases where Fastly is seeing the strongest customer interest for edge compute today? And how do you expect AI edge inference to evolve over the let's say next 12 to 18 months? Thank you very much.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Sure. Thank you for the question. I think from a compute perspective, we did report \$8 million in our other bucket, which was a nice kind of 67% year-over-year growth in our other business.

I think when we think about compute, that's a good business. And we're co-innovating with our customer base right now on agentic and AI and what we're doing there. I do think that as the agentic kind of market really starts taking off and maturing, those co-innovations that we're doing become much better and real products that we will go out to market with. So I think for now, from a co-innovation perspective, we are working with some of our best customers on the biggest and hardest opportunities and problems. And I think those are real unique opportunities for Fastly in that space.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, I would add just to echo Rich's comment. We've definitely seen an uptick in customers' interest in additional optimizations and features in our compute platform specifically related to interoperability with LLMs so that they can drive some of those workloads from the edge. And as Rich described, we're actively working with them to optimize it and continue to enhance the platform. So I think the edge compute opportunity is a large opportunity overall and one that we're certainly well-positioned to garner a good share of.

Charlie Zhou

Analyst, Evercore Group LLC

Q

Awesome. Thanks, guys.

Operator: Thank you. Our next question comes from the line of James Fish with Piper Sandler.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Hey, guys. Just curious what you guys are seeing at this point from some of the competitor exits/the Edgio side of things in terms of traffic and how that's kind of rolling through? And is it still that roughly 90% of the time you guys are replacing some of those legacy CDN providers, more incumbents like an Akamai?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, James, thanks for the question. I think that we have lapped Edgio probably for about two to three quarters now in terms of that opportunity. What we are doing on the network services, I think as Kip mentioned on the earnings call, we are growing almost 2x the market. And the way we're doing that is increasing share with existing customers. We continue to really support them and increase volumes with our existing customers.

But we also do have takeout campaigns. And we've been pretty good about doing that where we go out there, sell the value, which is we win where performance matters, where customers care really about speed, reliability, security in their network. And so that's probably more the last two, three quarters in terms of being able to kind of

beat the growth rate of the market is doing those takeouts versus our competitors versus the ones that went out of business, which we got two to three quarters ago.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Yeah. I mean at the end of the day, those guys are seeing renewals that kind of shift over and mix shift anyways. But my follow up question was more around the emergence of Anthropic Mythos and how do you see the value of your portfolio in security changing with some of the advancements there? Thanks, guys.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

No, it's a great question. We believe that the threat environment is only becoming more dynamic and more challenging for our customers. As these technologies come out, they could be quite disruptive on the security landscape. So, we're seeing actually more interest in our security products, to be clear, not less. I think there was an interesting market reaction when Mythos was first announced.

We actively use AI technologies in our security work. So we believe that we have a modern approach there that's well equipped to respond to these evolving threats. And we see more and more customers seeing value in products like web application firewall because as the velocity of threats increases, they can't patch all of their systems in time. So having something like a web application firewall that can be patched quickly and that can be managed by a company like Fastly, who sees the global threat landscape in real time, is very attractive in terms of reducing their time to protect their workloads. So we think it's evolution of the security space that makes perhaps platforms like ours even more important.

James E. Fish

Analyst, Piper Sandler & Co.

Q

Thanks, guys.

Operator: Thank you. Our next question comes from the line of Rudy Kessinger with D.A. Davidson. Please proceed.

Rudy Kessinger

Analyst, D.A. Davidson & Co.

Q

Hey, guys. Thanks for taking my questions. Still a lot of noise and better questions around AI traffic. There's been a lot of noise and especially questions around AI traffic. Could you help us just maybe break it down a bit further or provide more color? When you look at the year of your growth and the traffic on your network in Q1, what percent of that was driven by AI chatbots and agentic traffic?

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

I don't know that I have a robust number on exactly how to break that traffic out for you. I mean, what we have seen is that that traffic is growing faster than human browsing traffic. So we see it becoming a greater share of traffic over time. But I'm looking at – I don't think Rich or I have like a percentage or a number that we could share on this call.

Rudy Kessinger

Analyst, D.A. Davidson & Co.

Q

Okay, fair enough. And then on security, a really another really strong step up in the revenue on a quarter-by-quarter basis and the year-over-year growth acceleration. Were there any large deals in that in Q1 that contributed to that that we should be mindful of, similar to Q3 last year, I believe it was, or was that pretty broad-based?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, security this quarter was more broad-based. I would say that we did not highlight it because it's multiple customers that we want security. I would say that compared to Q3 where we mentioned we had one kind of big customer deal. Here, I think we mentioned multiple seven-figure deals that we closed in a quarter that involved security.

Beyond just those three, we also had a number of smaller ones that are also using security. I think as we see agentic traffic increase, our customers are getting more focused on the use of security and the use of compute on our platform. And so it's for us, we're seeing it much more broad-based than we did see it in Q3.

Rudy Kessinger

Analyst, D.A. Davidson & Co.

Q

That's helpful. Yeah, thanks for taking the questions, guys.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

I mean, I guess the one thing I'll mention before we move on to the next question is that another characteristic, and I think we talked about this a little bit in the earnings script, is we're seeing broader interest across our expanded security portfolio. So there are different ways of quantifying it, but our newer products are starting to perform very well alongside the next-gen WAP, which obviously continues to perform well. So from a revenue concentration perspective, we saw a lot of different sized deals during the quarter. I would say from a product diversification perspective, we saw broader interest in adoption across our portfolio, which is exactly our strategy.

Operator: Thank you. One moment for our next question. It comes from the line of Jonathan Ho with William Blair. Please proceed.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Hi. Good afternoon. I wanted to maybe start out with the hiring of Joan and the potential opportunity that you see in terms of the CMO role. And maybe what the biggest opportunity could be for the business to accelerate just given the hiring there.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

No, absolutely. We see a big opportunity there. We're proud of the efforts that we've made in marketing, but really look forward to Joan helping us take those to the next level, especially as we reach more markets around the world.

I think there's a significant opportunity to better position the value of our platform and of our services with specific buyers and specific verticals. And I think there's also an opportunity to build awareness, in particularly APJ, but other markets where we believe that we're underpenetrated from a market perspective.

And I'm just obviously very impressed with Joan's background, and she has a very systematic and scalable and repeatable approach to marketing. And I think that's going to serve us well, especially as we work to expand our brand recognition to include, but be a lot more than our world-class network service and delivery products, but really as a first-class security and edge compute brand.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, I think the one thing I would add to that is that I think we were founded by a technologist. We've always been a delivery technology first company, and I think our brand really resonates really well with a lot of technologists who are so deep in the edge platform. I think bringing Joan brings this level of, hey, how do we speak about the performance that we have and the technological capabilities we have beyond just the technologist organization? And I think that that's pretty exciting to me because being able to appeal to a broader audience beyond just technologists is very important.

Jonathan Ho

Analyst, William Blair & Co. LLC

Q

Got it. And just in terms of a follow up. I mean, just given the strength in your security business this quarter, can you help us understand what's maybe driven the strong uptake and what inning we're in particularly given how early agentic rollout is around some of these use cases that you mentioned? Thank you.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Yeah, I mean, it's a great question what inning we're in. I'm not sure I know how to quantify that, but what I can say is we've had a few different things come together to drive that growth higher. As Rich mentioned, one was new deals and some significant new deals in the quarter.

We've also had continued robust expansion of some of the deals we've won in the last several quarters. And so we continue to see growing volume and growing adoption. As I mentioned earlier, another thing that's happening is over the last five or six quarters, we've dramatically expanded our security portfolio essentially from what was really one product, phenomenal product in our next-gen WAF, but nonetheless one product to include five or six very solid products that solve important business problems for our customers. So I think another thing that's sort of compounding into that growth is us being able to land more customers with that broader portfolio and having existing customers adopt more of the portfolio.

I think it's hard to quantify, but AI, I think, is a driver here. We have seen increased interest in our privacy products that are part of our security portfolio and also in our API governance products, which includes our API discovery and schema enforcement products. And that appears in many cases to be driven by AI use cases. And so we'll continue to monitor that. But as I said earlier, we see some significant relevance with aspects of our security product and important AI use cases.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, the one quantification area I would may try to chime in with is that if you think about the midpoint of our guide for the full year of 2026 that's like a \$93.5 million increase on an incremental revenue perspective. If you look at where that incremental revenue is coming from based on the growth rates of the various businesses, more than half of our incremental revenues will actually come from security and other, which I'm very positive and bullish on, right?

I think that those are areas that we're investing in. Those are areas that we think create the biggest opportunities for Fastly, and you can see that reflected in our growth rate, and you'll see that reflected in incremental revenue year-on-year for 2026.

Operator: One moment for our next question. It comes from the line of Jeff Van Rhee with Craig-Hallum Capital Group.

Jeff van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thanks. Thanks for taking my questions, guys. A few for me. First on the network side, I think you said last quarter [indiscernible] (00:46:28) growth was in the mid-20s. Just wanted to confirm it's sort of still in that range. And then what are the assumptions implicit in the annual outlook?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah, so network services, we've talked about traffic growth kind of being in the mid-20s, and then we talked about kind of the mid-single-digit kind of price compression. Nothing right now is really changing that. I think that from a prudence perspective we are seeing kind of still mid double-digit kind of traffic growth rates, and then that's offset by price kind of erosion that we see in the mid-single-digits.

When we see the contracts coming in for renewal, from a prudence perspective, we do still layer in expectations of both volume discounts that our customers start unlocking, plus some price discounting that we do give. And so from a modeling perspective, we are still kind of doing the low double-digit kind of renewal assumption, which is probably the prudent thing to do given the environment we're in.

Jeff van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

Yeah, agreed. And that's helpful. Thank you. And on the CapEx side, just like-for-like on hardware, what is the assumption in terms of increased prices on hardware built into your CapEx outlook?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah. So basically, from a hardware perspective we guided 10% to 12% of revenues. That implies roughly a \$70 million to \$80 million infrastructure CapEx spend for the full year. We are frontloading that spend, so the majority of that infrastructure CapEx will come in Q1 and Q2. We have placed all the server orders already from an ordering perspective for the year. And as a matter of fact, the server orders, we've already received it in Q1.

One of the things you may notice in our financial statements is that you'll see a big pickup in AP. The orders that we placed arrived in Q1, and we have not yet made payment. They arrived literally the last kind of two, three weeks in the quarter. And so that's a normal thing. And those prices have been locked in. We've already received

the equipment, and so we're good to go on the hardware side. We did see the price increase. I mean, in some of the areas, we did see increases of 2x to 3x, especially when it comes to memory pricing.

Jeff van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

Yeah. Okay. And then just last, in terms of the high level revenue guide, can you help us just in terms of what you're thinking network versus security, what's implicit in that annual guide in terms of growth rates for those subsegments? And if you don't want to get too precise, even just some ranges would be helpful.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah. From a business-by-business outlook we think network services is probably like 5% to 6% market grower. For us I think that from a growth rate perspective, we could be anywhere between 9% to 11% kind of year-on-year growth in network services.

I think from a security perspective we should continue to see growth in this area. I think that it wouldn't be unheard of to be in the kind of 25% to 30% kind of year-on-year growth perspective, especially after delivering a 47% quarter in Q1. And then the other is just kind of the delta between what we've guided for the full year, less those two...

Jeff van Rhee

Analyst, Craig-Hallum Capital Group LLC

Q

Okay. Got it. Thanks so much. Appreciate it.

Operator: Thank you so much. One moment for our next question. It comes from Param Singh with Oppenheimer. Please proceed.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Hi. Thank you so much for taking my questions. I actually had a couple. First thing, I really appreciate the insight you shared so far on the agentic AI side and some of the products that you're bringing on, on the security side. Now, in that vein, when you talk to your customer base, what do you feel is missing so far, either from a security or a compute perspective that should help them deploy and manage the agentic AI platform? And how would you price some of those incremental products versus how you're pricing the current platform to the customer base? And then I had a follow up. Thank you.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

That's a great question. A question that I think a lot of people in the industry have. What we're seeing is that with enterprises, it's relatively early days in terms of agentic adoption. Many of them are seriously looking at how their processes evolve to embrace agentic AI and get the full capabilities out of it. We've certainly seen interest, as I said before, in the security area. If they have agentic coding tools, writing code and executing it, how can they perhaps use API discovery and schema enforcement to make sure that they're comfortable with what that code's doing to other systems?

I mentioned the privacy aspect. We've had a lot of interest in that. But I would characterize our work with customers as relatively early for the majority of enterprises. And that's why we talked about the design partner program where we're working very closely with those customers to make sure that we meet their needs.

In terms of specific products or pricing, it's probably premature to comment on it. Certainly not in this forum at this time as we continue to develop those products and work with our customers and assess the value-creation potential.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Q

Understood. Really helpful. Thank you. Maybe one for Rich. If I'm not mistaken, you still have some convert at 7.75%, that's pretty high interest rate. How are you thinking about kind of rejiggering your financial structure at this point, taking advantage of the market and your stock price?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Yeah. So the 7.75% convert we have outstanding, it's not due until June 1, 2028. And so we have a little bit of ways to do it. It is high interest rate relative to the interest rate environment we are in. These bonds are trading at a significant premium to where they are. So a refinance opportunity is quite expensive given the trading values they're at.

Right now we're focused on just what we have. And I think that from a liquidity perspective, I think that we sufficiently have liquidity and we feel good about the kind of maturity in 2028 and 2030 that there are ways out to not have to focus on that and focus on growing the business and really operating the business the way we've been doing.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Q

And Rich do you feel you're sufficiently capitalized to fund the CapEx to attend to all this growth opportunity you have in front of you?

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

Absolutely. I think we guided free cash flow for the year, even after the CapEx spent of \$40 million to \$50 million. And so we feel very good about how we're operating the liquidity we have with \$330 million in cash and still generating cash flow.

Param Singh

Analyst, Oppenheimer & Co., Inc.

Q

Fantastic. Thank you so much for the insight. Appreciate it.

Operator: Thank you. [Operator Instructions] Our next question is from Max Persico with RBC Capital Markets. Please proceed.

Max Persico

Analyst, RBC Capital Markets LLC

Q

Great, guys. Thanks for taking the question. I've got two for you and I'll just give them both to you right away. On the security side, as we think about kind of the broadening portfolio and the traction you're seeing with the products outside of the core WAF solution, can you just help me understand like are you seeing customers and maybe net new customers actually land with the newer solutions or is it still predominantly a cross-sell, upsell motion?

And then separately on the network services side, as we think about kind of, I think what would be fair to describe as like a fluid macro environment with ongoing conflicts in the Middle East and higher energy prices, supply chain disruptions, et cetera, and the impact that that could have on like consumer budgets, particularly at the low end. Can you just remind me, like how much of that business is impacted by e-commerce traffic and like how are those contracts structured? Like really the question is like, could slower traffic show its head or show its face in the numbers over the near term or are you somewhat insulated from those kind of macro trends that may or may not show up?

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

A

Sure. Thanks. I'll take the first question off, maybe a comment on the second question, but Rich may be able to offer a more quantitative lens on that.

In terms of security and the newer products, we absolutely have customers starting on our platform with multiple of our security products at the same time, including obviously the newer products like bot management, DDoS and API security. So absolutely at this point, we see customers starting their journey with us with multiple security products, often also including WAF, to be clear, but starting with more than just the WAF and with those other products. So we're definitely seeing the attractiveness of those.

I think that's something that we've talked about in the past is that we felt like as we completed the web application and API protection portfolio, as some of the analysts call it, which I think with the API releases we have, we expected to see some pickup on the security business as we were able to fully meet some, for example, RFP requirements of enterprises. And in those scenarios, they do adopt a bunch of products up front at once. And so that is absolutely what we're seeing. We're very proud of our next-gen WAF, but there's still an opportunity for these other products as they come into their own in our portfolio.

On the macro environment, I would not describe us as insulated from macro environment or geopolitical risk for sure, but I think if you think about our business, it's, to me, complex to predict exactly how it will have an impact. I have experience in past lives in industries where, for example, when the economy was not strong, people retained cable subscriptions and things like that because they were not going to be going out as much. So it's not as clear at the consumer level exactly how it affects the different lines of business that our customers are in that we support. So I don't know if I can draw a direct line, but Rich may have some numbers or some further thoughts. I'm not sure.

Richard Wong

Chief Financial Officer, Fastly, Inc.

A

No, I think Kip you answered it really well. I think that comment around what people do in a recessionary environment is completely accurate.

I think the other part of your question was around how much exposure on e-commerce in terms of a recessionary downturn. I do think that in our next work services business, we win where performance matters, and e-commerce

is certainly one of those areas where performance is required and performance matters, but we are also very important to a lot of other verticals as well.

And so one, exposure to e-commerce is not magnified or huge, but I think two, we have seen in the past in a recessionary environment, there is a little bit slightly more resilient demand than what we see in other areas. And so we are monitoring and we are watching because, of course, we care about this, but we are a little bit more resilient on the e-commerce front.

Max Persico

Analyst, RBC Capital Markets LLC



Very helpful. Thanks, guys.

Operator: Thank you. And as I see no further questions in the queue, I will conclude the Q&A session and pass it back to Kip Compton for closing comments.

Kip Compton

Chief Executive Officer & Director, Fastly, Inc.

Thank you, everyone, for joining and for your interest in Fastly. We look forward to you seeing you at our Investor Day in September, which Vern mentioned earlier, and we'll be sharing more about as it approaches at the Nasdaq MarketSite in New York. Lastly, I want to thank our Fastly employees for all of their contributions, our customers for their trust and partnership, and our investors for their continued support. Thank you.

Operator: This concludes our conference. Thank you for participating and you may now disconnect.

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