



# DATA CENTERS



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DataBank Holdings Ltd. CEO Timothy Moore stands in front of a facility the company is building in Richardson. It is scheduled to open before the end of the year.

JAKE DEAN

# Investors pour more money into data centers

BY JEFF BOUNDS | STAFF WRITER

Private equity and venture capital investors have poured well over \$650 million into the North Texas data center industry since 2009, and the hits keep coming.

FireHost Inc., a Richardson supplier of super-secure Web hosting services, is one such example. In an Aug. 22 Securities and Exchange Commission filing, FireHost reported it had landed at least \$7.5 million of an equity round of funding targeted at nearly \$9.76 million.

In early August, Compass Datacenters of Dallas and a corporate affiliate also joined the list, announcing that they have received commitments for debt and equity financing of up to about \$162 million.

It's not clear precisely how much private financing in total has poured into the Dallas-Fort Worth data center industry during the past few years, because numbers on some transactions haven't been disclosed. Using data from the information firm mergermarket and our own research, the *Dallas Business Journal* found seven North Texas companies in the broad data center space that have raised a total of at least \$665.45 million since 2009 through private equity buyouts, growth financings and venture investments.

That dollar total is in keeping with the interest that private investors have shown across the country. Nationwide, private equity and venture investors poured more than \$5.21 billion into data center-related plays last year, up from nearly \$1.02 billion in 2009, according to the investment data provider PitchBook.

The North Texas total that the DBJ compiled doesn't include mergers and acquisitions between operating businesses, where a sizable amount of capital has been thrown around as well.

Consider Dallas-based SoftLayer Technologies Inc. The company was acquired by California's GI Partners in an August 2010 deal worth about \$475 million, according to data from mergermarket.

In November of that year, CEO Lance Crosby confirmed that SoftLayer had merged with a sister company controlled by GI Partners, Houston's The Planet, in a deal worth roughly \$1 billion.

Since then, SoftLayer has only gotten bigger. Revenue last year hit \$335.1 million, and the employee count stands at 650, putting SoftLayer at No. 661 on the Inc. 5000 for 2012. SoftLayer officials declined to comment.

The capital that data center players are receiving is helping keep construction moving.

For instance, DataBank Holdings Ltd., a Dallas supplier of custom data center and co-location services, plans to open in the fourth quarter a 65,000-square-foot facility in Richardson that will include four pods, each of which will have 10,000 square feet of raised floor, according to CEO Timothy Moore.

DataBank, which is owned by Avista Capital Partners, also is looking to expand into new geographic areas.

"DataBank is in active dialogue to enter new markets, with the goal of replicating the success it has enjoyed in Dallas," said Brendan Scollans, a partner and founding member of Avista Capital.

Both he and Moore declined to be more specific about how and when DataBank might extend its reach into geographic areas outside DFW.

## Big data needs

Investors cite several factors that make the data center space attractive:

■ **Large organizations outsourcing their information-technology operations.** More big companies across the board are farming out the job of running their computers, and a big beneficiary is data centers. "Our research indicates only 10 percent of enterprises have taken their IT services and outsourced them to third-party data center co-location providers," Scollans said. "We think that penetration level could get to 50 percent."

■ **The growth of Internet traffic and electronic data.** The numbers are mind-boggling. Consider just how much data

crossed U.S. wireless networks each month during 2011: 0.1 exabyte, the rough equivalent of 25 million DVDs, according to Cisco Systems. By 2016, that number will hit 1.7 exabytes, or the equivalent of 425 million DVDs, according to Cisco, which has a Richardson location. Or look at it this way: 5 exabytes of data is a text transcript of all the words ever spoken.

■ **A dearth of supply.** "There is 90-plus (percent) capacity utilization (of data centers) in many markets," Scollans said. "It's a growing market, with mid- to high-tees sales growth going on."

■ **A sticky business.** If corporate customers get good service, they stay with their data center company. Monthly "churn," or customer turnover, is less than 1 percent in the industry, Scollans said. And once the data center turns on service, only a nominal amount of care and feeding is required to keep things running smoothly, experts said.

■ **Profitability.** Although data centers are capital intensive, they can produce good profit margins with recurring revenue. "So much of spending within this business is the capital spend that is attributable to growth projects, which have clearly identifiable return metrics," said Mike Krza, chief financial officer of Colorado's ViaWest, which owns seven DFW data centers with a total of 150,000 square feet of raised floor. "The capital-intensive side of our business is the growth side of the business. We could turn away new opportunities and new customers and cut our capital spend immediately."

## Too much of a good thing?

When private financiers go nuts for a particular industry, a question always arises: When should they stop writing checks?

No one disputes that private investors poured too much money into data centers in the 1990s. The result was too much capacity chasing too few customers after the technology and telecom bubbles burst in 2000 and 2001. The fallout lasted until roughly 2004, when the data center industry got off the deck and

began growing again.

And just as in 2000, it's always possible that the current boom could turn into a bust, investors conceded.

"Overbuilding is a risk in the industry. There are selected markets where we can see evidence of overbuilding," said Robert Morse, a partner at Oak Hill Capital Partners, a California private equity firm whose lead investor is Fort Worth financier Robert M. Bass.

"But in general, the industry statistics we look at do not show pervasive overbuilding," Morse added. "The underlying growth in demand, which runs in the low teens per year, is many times gross domestic product growth. Meeting that demand requires a lot of capital."

Morse and others maintain that this go-round is different from the dot-com mania, partly because many companies of that period had lots of capital but poor business plans for using it.

"I think the use and propensity of data is going nowhere but up. That will continue to support the data center industry long term," said Aaron Clark, vice president of The Stephens Group LLC, a Little Rock, Ark., private equity firm whose principal backer is the Stephens family. Clark spearheaded the firm's participation in a \$10 million second-round funding of FireHost last year.

Despite having to build to meet surging demand, data center providers are mindful of what happened nearly a decade ago and are being smarter about how and when they deploy their facilities, experts say.

"Providers are relying on architectures that consolidate capital equipment and require less square footage to support more processing power," said Amy DeCarlo, principal analyst - security and data center services at Current Analysis, a Sterling, Va. market research firm. "Elements like modular design are not only space efficient but can be constructed (and torn down) relatively quickly."

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Breakdown by square footage of the largest North Texas data centers:

10

110,000+ SQUARE FEET

4

80,000-110,000 SQUARE FEET

5

40,000-79,999 SQUARE FEET

6

20,000-39,999 SQUARE FEET

LARGEST NORTH TEXAS

DATA CENTERS

Ranked by total square footage in North Texas

Rank	Name Address	Telephone Fax	Total square footage of all North Texas data centers	Local data centers/total data centers companywide	Local/ total employees	Primary services	Top company official/ parent company/ website
1	<b>Digital Realty Trust</b> 2323 Bryan St. Dallas 75201	214-231-1350	1,850,000	20 DND	DND DND	Flexible turn-key data-center solutions, including site selection, development, build-to-suit	Michael Foust Digital Realty Trust www.digitalrealtytrust.com
2	<b>Cyrus One</b> 2501 S. State Hwy. 121, Ste. 500 Lewisville 75067	214-488-1365	510,000	2 21	50 185	Enterprise colocation	Gary Wojtaszek Cincinnati Bell www.cyrusone.com
3	<b>AT&amp;T Inc.</b> 208 S. Akard Dallas 75202	800-222-0400	455,779	6 142	DND DND	Hosts externally facing services including cloud computing and U-verse digital TV internal services	Randall Stephenson AT&T Inc. www.att.com
4	<b>Stream Data Center</b> 2200 Ross Ave., Ste. 5400 Dallas 75201	214-267-0400	245,000	3 5	DND DND	Wholesale	Robert Kennedy, Paul Moser Stream Realty Partners www.streamdatacenters.com
5	<b>Via West</b> 3010 Waterview Pkwy. Richardson 75080	214-272-5800	233,394	7 24	51 311	IT infrastructures	Roy Dimoff Oak Hill Partners www.viawest.com
6	<b>DataBank</b> 400 S. Akard St., Ste. 100 Dallas 75202	214-720-2266	150,000	7 7	30 30	Colocation	Tim Moore Avista Capital Partners www.databank.com
7	<b>Savvis</b> <sup>1</sup> One Savvis Pkwy. St. Louis 63141	800-728-8471	134,976	2 51	52 3,750	Cloud computing solutions, colocation, managed hosting, managed security	Bill Fathers CenturyLink www.savvis.com
8	<b>Internap</b> 1221 Coit Road Plano 75075	877-843-7627	130,000	1 10	20 500	Colocation, managed hosting, dedicated hosting, IP connectivity, cloud infrastructure	Eric Cooney Internap Network Services Corp. www.internap.com
9	<b>Citigroup</b> <sup>2</sup> 931 Litsey Road Roanoke 76262	800-285-3000	120,000	DND DND	DND DND	DND	Stephen Volk Citi www.citigroup.com
10	<b>Equinix</b> <sup>2</sup> 1950 N. Stemmons Fwy. Dallas 75207	800-322-9280	114,000	DND DND	DND DND	DND	Stephen M. Smith Equinix www.equinix.com
11	<b>Bank of America</b> <sup>2</sup> 901 Main St. Dallas 75202	800-432-1000	113,932	DND DND	DND 281,791	DND	Richard Holt Bank of America www.bankofamerica.com
12	<b>Rackspace</b> <sup>2</sup> 801 Industrial Blvd. Grapevine 76081	800-961-4454	106,000	DND DND	DND DND	Cloud hosting, managed hosting	Lanham Napier Rackspace Hosting www.rackspace.com
13	<b>AIG Data Center</b> <sup>2</sup> 13701 Independence Pkwy. Fort Worth 76177	817-491-0230	100,000	DND DND	DND DND	DND	Robert H. Benmosche AIG Inc. www.aig.com
14	<b>Blue Cross Blue Shield of Texas</b> <sup>2</sup> 14100 Park Vista Blvd. Fort Worth 76177	972-766-6900	80,000	DND DND	DND DND	DND	Bert Marshall Blue Cross Blue Shield of Texas www.bcbstx.com
15	<b>SoftLayer</b> <sup>2</sup> 1700 Summitt Dallas 75244	214-442-0600 214-442-0601	70,000	DND DND	DND DND	DND	Lance Crosby SoftLayer Technologies Inc. www.softlayer.com
16	<b>Colo4 LLC</b> 3004 Irving Blvd. Dallas 75247	214-630-3100 214-630-1099	68,000	2 4	28 DND	High-density power, managed services, colocation	Paul Estes Colo4 LLC www.colodallas.com
17	<b>Level 3</b> <sup>2</sup> 3180 Irving Blvd. Dallas 75247	214-443-2700	58,711	DND DND	DND DND	DND	James Q. Crowe Level 3 www.level3.com
18	<b>Clearview International LLC</b> 6606 LBJ Fwy., Ste. 135 Dallas 75240	214-219-2815 214-219-1087	54,500	3 3	32 38	Colocation, cloud services and consulting	T.J. Karklins Clearview International LLC www.clearviewfocus.com
19	<b>Cisco Systems</b> 2200 E. Bush Turnpike Richardson 75082	469-255-0000	50,000	2 DND	DND DND	DND	John T. Chambers Cisco www.cisco.com
20	<b>Atos</b> <sup>2</sup> 5000 S. Bowen Road Arlington 76017	817-264-8200	40,000	DND DND	DND 4,500	DND	Thierry Breton Atos www.atos.net
21	<b>Vazata</b> 6900 Dallas Pkwy., Ste. 800 Plano 75024	972-509-0110 972-509-0111	37,500	2 3	10 35	Complex managed hosting, colocation, infrastructure-as-a-Service (IaaS)	Lance Black Vazata www.vazata.com
22	<b>CoreXChange</b> <sup>2</sup> 8600 Harry Hines Blvd. Dallas 75235	214-442-1111	28,000	DND DND	DND DND	Colocation	Peter Pathos CoreXChange www.corexchange.com
23	<b>Hosting.com</b> 1807 Ross Ave., Ste. 300 Dallas 75201	888-894-4678	25,000	1 6	40 350	Next-generation cloud hosting and disaster recovery services	Art Zeile Hosting.com www.hosting.com
23	<b>Ally Financial</b> <sup>2</sup> 2501 S.State Hwy. 121 Lewisville	866-766-4622	25,000	DND DND	DND DND	DND	Michael A. Carpenter Bloomington, Minn. www.ally.com
25	<b>Data Dallas Corp.</b> 1111 W. Mockingbird Lane, Ste. 300 Dallas 75247	214-638-2007 214-638-0682	22,000	1 1	7 25	Mainframe outsourcing	Gerald Garcia Private www.datadallas.com

NOTE: Square footage of data centers represents only the data center floor, not the entire building  
DND: Did not disclose  
1. Declined to give a North Texas address  
2. Declined to submit information; data supplied by Michael C. Rareshide of Partners National Real Estate Group in Dallas

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