Datacenter Market Trends

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Putting Money Where the Mouth Is

- Our approach
  - No Hype
  - Clear Actionable Advice
  - No Hazy Crystal Ball Predictions
  - Hard Questions and Good Answers
Coverage Areas: Topics of Focus

- Colocation
- Hosting
  - shared
  - dedicated
  - managed
- Datacenter Facilities
  - power and cooling
  - eco-efficiency
- CDN
- Messaging
- Utility Computing
Four Key Topics

• What every Enterprise needs to understand about datacenters
• Datacenter Industry Health Report
• Key Customer Issues
• Motivators for Future Datacenters
Enterprises and the Datacenter

• What every Enterprise need to know about datacenters?
  • Third party datacenters are valid options for the enterprise. “Build vs Buy”
  • There are a number of different choices depending on the specific enterprise’s needs
  • Providers of these services are stable and in a stable market segment
  • Those providers understand enterprise issues and concerns
Enterprises and the Datacenter

- What’s an enterprise?
  - Not just the conventional Fortune 500
  - Content and entertainment
  - Software and Hosting firms
  - IT-intensive firms - retailing, pharma, energy
  - Mid Tier enterprises
  - All the way to SMBs
Enterprises and the Datacenter

• Two Primary types of Datacenter
  • Colocation -
    • Contract: 1 to 3 years
    • Size: 5 to 50 cabinets
    • Some managed services
  • Wholesale Datacenter -
    • NNN Lease: 3 to 7 years
    • Size: 5000 sq ft+ (~ 1MW+)
    • Limited or no services
Power

• This is not traditional real estate
• “Space” is secondary. Power is king.
Wholesale & Colocation

Price

Commited kW

Colocation
Overlap
Wholesale
Introduction

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Q2/Q3 and datacenters

- Datacenter services showed strong revenue
  - 5% Q/Q (over 15% annualized growth)
  - Outpaced 80% of public and private firms
  - Sector for all seasons
- EBITDA margins outpace revenue growth - 15 to 20% annualized growth
- Lack of supply due to pokey capital markets is a big threat to growth
Datacenters and the Recession

• The best of times at the worst of times
• Demand is down slightly, but supply has taken a nosedive
  • Why?
• Inability to obtain construction loans
  • Banks hate datacenters. Really.
  • 2001 is the blink of an eye to a banker.
Demand is still strong - mostly

- Demand is still strong, which is driving utilization higher

- What’s driving demand?
  - Lack of enterprise CapEx
  - Continuing “same store” sales
  - Demographic move to cloud is unstoppable
  - Strong verticals like Health Care

- New interest from...
  - Financial vertical, traditional big enterprise
Pricing Dynamics

- Steady, today
- 7 to 10%+ annualized price increases by Q1
- This is good for providers, but enterprise should lock in pricing *now*. 
Looking ahead

- Growth will pick up....
- Datacenter outlook sunny....
  - Colocation has seen 5% Q/Q growth in Q4/Q1
  - REIT growth slower
  - Biggest threat: Insufficient inventory on hand for eventual recovery due to lack of capital
  - Largest providers have significant advantages in cash flow
The Bottom Line

- Datacenter firms
  - Cash flow positive
  - Positive and growing EBITDA
  - Revenue growing and moderate debt levels

- Datacenters
  - Utilization levels high
  - Prices set to climb
  - Minimal impact from cloud computing, virtualization
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Typical Customer Issues

- Loss of control - server hugging
- Enterprises need far more education than other colocation users
- Network issues can be paramount and controlling
- Demand for enterprise level support
Understand Enterprise Issues

• Server hugging is a real phenomenon
  • A result of training, not irrationality
  • Starting to abate, but the change is generational
  • The “Internet Generation” has a higher comfort level with the cloud

• Control issues are valid and practical
  • Remote management isn’t always up to snuff
  • Integration of ticketing systems and security
  • Regulatory compliance is a huge plus
Understand Enterprise Issues

• The “education problem”
  • Most significant issue in datacenter provider penetration is education
• Most enterprises don’t know services exist!
• Early customers needed less education
  • Willingness to educate and make resources available - key selection criteria
  • Selling isn’t enough
Understand Enterprise Issues

• Networking issues are paramount
• First question- are you on-net to X?
  • Enterprises have strategic networking relationships
• IDC providers think of Internet
  • ..but enterprises frequently have non-Internet WANs
  • Many times xeroxed list of network providers is not going to do it, post or pre sales
Understand Enterprise Issues

- Enterprise-level support
  - Sink or swim approach doesn’t work with the enterprise
- Datacenter firms raising their game in the post-sale period
  - More sophisticated implementation management
  - Better web portals and ticketing systems
  - Technician support still needs work
- Providers doing a good job, can improve
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Motivators for Future Datacenters

- Speed to Market
- Reduced Cost
- Improved Reliability
Speed to Market

- Persisting supply / demand imbalance to drive faster delivery of datacenters
  - Modularity
    - Process Refinement & Smaller “Phases”
  - Standardization vs Customization
Reduced Cost

• Initial cost somewhat reduced from modularization and component pre-fabrication
  • Ideally, reduced labor and construction time (not necessarily a given just yet)
• “Pieces” will come down in price
  • Mass Production
  • More Competition

• Operational Costs / Efficiency
  • “Green” initiatives
  • Hedging bets on power prices
# Quantifying Efficiency

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Assumes $0.10 / kW-hr  Source: Tier1 Research
Improved Reliability

• There is no “Consumer Reports” for datacenter infrastructure equipment

• Redundancy, maintenance practices, and the almighty human element

• Improved reliability for future datacenters will come from datacenter-wide integration
  • Increased intelligence and instrumentation
• Content-rich and contact-heavy
• Substantive analysis and insight
• High level networking
• Agenda
  • Leadership Perspectives
  • Datacenter Operations
  • Technologies & Architectures
  • Build vs Lease
  • Datacenter Regulation
  • … and more
dtsummit.com
Questions?

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