Mossberg's Investor Digest

Best Idea Profile: **Rackspace Hosting, Inc. (NYSE:RAX)**

DESCRIPTION:

Rackspace Hosting was founded in 1998 and is headquartered in San Antonio, Texas, with nine data centers in the U.S., U.K. and Australia. Rackspace delivers enterprise-class hybrid cloud infrastructures to businesses based on their specific needs. It offers its 205,000 customers a combination of public cloud, private cloud and dedicated bare metal computing. Public cloud services refer to pooled computing resources delivered on-demand through the Internet. Dedicated cloud services manage the data center, network, hardware and operating system software for the customer. Private cloud has the capabilities of a public cloud but is built on a customer's own infrastructure. The hybrid cloud is the most recent innovation that combines these environments to work together. Rackspace has 4,800 employees, many of whom are dedicated to support.

KEY INVESTMENT CONSIDERATIONS:

Shift to Cloud Computing at Warp Speed – The days of expensive IT departments, huge capital expenditures and slow adaptations is quickly ending. Cloud computing is cheaper, better and faster. Companies can pay for what they use and can scale up and down and rapidly deploy new applications. The transformation to cloud is a larger opportunity than the shift from mainframes to client-servers. Rackspace's Fortune 100 customer base has jumped from 32 to 60 in two years.

Hybrid Cloud is the Place to Be – Rackspace's forward emphasis is on hybrid cloud services, which is where it is best differentiated in the market and where it is winning new enterprise business. This hybrid approach avoids the pitfall of many competitors who are trying to mold their customers' varying needs into one environment when different applications may work best in different computing arrangements. Rackspace offers multiple solutions that satisfy each customer's evolving needs, resulting in superior performance, reliability, and cost efficiency for customers as they move their systems to a cloud. Rackspace has a robust pipeline of pilot programs for hybrid customers that are expected to move into production.

OpenStack is State of the Art – In 2010 Rackspace and NASA founded OpenStack, which has grown to be a global software community of developers collaborating on a standard and massively scalable open source cloud operating system. OpenStack provides a environment for intense customization. Rackspace's reputation as an OpenStack founder and expert is generating more and more recognition. IBM, one of the corporate sponsors of OpenStack, recently announced that it will base its new cloud products on OpenStack. OpenStack enterprise customers, including Best Buy, Bloomberg, the Soren Research Institute, Comcast, the National Security Agency, PayPal, and Sony recently gave presentations about their use of OpenStack in their plans for further deployments on the open source platform. OpenStack has expanded Rackspace's addressable market, resulting in the Company's recent announcement of its first reference customer for a hybrid cloud offering. HubSpot, an inbound marketing company, which serves 8,000 customers, reported that it achieved a four-fold increase in efficiencies after moving to OpenStack hosted at Rackspace.

VALUATION:

RAX took a huge hit when it missed revenue and earnings guidance in the first quarter. For short-term and explainable reasons, growth has slowed and pricing has been cut. However, the positive long-term growth story is unchanged. Rackspace's balance sheet is strong and it is fully funded. Growth in hybrid cloud computing is continuing to attract the attention of many deep-pocketed corporations whose interest could provide buy-out opportunities for investors.

Rackspace Hosting, Inc. (NYSE:RAX)
Investment Data (as of 6/30/13)

Recent Price	**$37.89**
52-Week Range	$33.91 - $81.36
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	138 M
Average Trading Volume (3 mos)	2.5 M
Market Capitalization	$4.8 B
Cash	$279 M
Long-term Debt	$106 M
Enterprise Value (EV)	$4.7 B
Book Value	$6.37
TTM Revenue	$1.4 B
P/ Revenue	3.5x
TTM EPS	$0.77
P/ EPS	44.8
TTM EBITDA	$443 M
EV/ EBITDA	10.7