



# Mossberg's Investor Digest

## Best Idea Profile

Savvis (Nasdaq: SVVS)

### DESCRIPTION:

Headquartered in Town & Country, Missouri (suburb of St. Louis), Savvis provides IP network and hosting services to businesses and government agencies. IP network services (35% of revenue) include managing customer's network infrastructure. IP network services create a virtual private network that customers use to communicate to geographically dispersed locations in a more cost effective and secure environment. Hosting services (66% of revenue) provide facilities and network infrastructure to run business applications, provide data storage, and redundancy services. The company has a global network of 29 data centers with approximately 1.4 million square feet of space in the U.S., Europe and Asia.

### KEY INVESTMENT CONSIDERATION:

**Collocation supply and demand trends are favorable –**

**Supply –** Due to the capital intensive nature of the collocation business, it's becoming more challenging to finance construction of new capacity. Construction is being delayed and new projects are far and few between. In addition, it's likely that supply will trail demand in an economic recovery, as it takes 18 months to build a new facility.

**Demand –** Even though the Internet is maturing and the pace of growth may be slowing, the Internet will continue to grow. It is replacing how we get our information and taking share from traditional media outlets like newspapers, radio and television. It is also changing how we communicate, how we educate, how we transact, and how we entertain ourselves. All of these areas will create ongoing secular demand for the Internet and hosting services. The credit crunch will also fuel the demand for outsourcing, as companies will have less capital available to build data centers in house, but will still have a need to expand capacity to meet demand.

**Recurring revenue from solid customers –** The company has more than 4,000 customers including a significant portion of the Fortune 1000 such as ebay, Albertsons, Reuters, Raytheon, and others. With contracts that range from one to three years, these recurring revenue customers represent 90% of revenue.

### RISK:

While no single customer makes up more than 10% of revenue, Reuters made up approximately 7% of revenue during 2007 and the financial services vertical represents approximately 20% to 25% of revenue (depending on how you classify Reuters).

### VALUATION:

When looking to value Savvis, it is not possible to use a net income multiple because the company does not generate profits. Due to the capital intensive nature of its business, the company generates significant depreciation and amortization expense, which are non-cash charges. Therefore, to value the company we have to look at cash flows (\$146 million in operating cash flow during 2008) or a proxy such as EBITDA. An enterprise to EBITDA value of 4.4x appears attractive for a market leader with a strong base of recurring revenue.

#### (NYSE: SVVS)

Investment Data (as of 2/25/09)

<b>Recent Price</b>	<b>\$5.79</b>
52-Week Range	4.61 - 20.52
Fiscal Year End	December
Dividend	N/A
Yield	N/A
Shares Outstanding	53.5 MM
Average Trading Volume (3 mos)	444,000
<b>Market Capitalization</b>	<b>309 MM</b>
Cash	121 MM
Long Term Debt	618 MM
Enterprise Value (EV)	806 MM
LT Debt/ Equity	N/A
BV/ Share	2.77
TTM Revenue	857 MM
<b>P/ Revenue</b>	<b>0.3x</b>
TTM EPS	-0.17
<b>P/ EPS</b>	<b>N/A</b>
TTM adjusted EBITDA	185 MM
<b>EV/ TTM EBITDA</b>	<b>4.4x</b>

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