



rackspace[®]
HOSTING



Safe Harbor Statement

This presentation contains "forward-looking" statements that involve risks, uncertainties and assumptions. If the risks or uncertainties ever materialize or the assumptions prove incorrect, our results may differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, any projections of financial information; any statements about historical results that may suggest trends for our business; any statements of the plans, strategies, and objectives of management for future operations; any statements of expectation or belief regarding future events, potential markets or market size, technology developments, or enforceability of our intellectual property rights; and any statements of assumptions underlying any of the items mentioned.


These statements are based on estimates and information available to us at the time of this presentation and are not guarantees of future performance. Actual results could differ materially from our current expectations as a result of many factors, including but not limited to: the unpredictable nature of our rapidly evolving market and quarterly fluctuations in our business; the effects of competition; and any adverse changes in our indirect channel relationships. These and other risks and uncertainties associated with our business are described in our quarterly report on Form 10-Q for the quarter ended March 31, 2009, filed with the SEC on May 12, 2009 and our Form 10-Q for the quarter ended June 30, 2009, which will be filed with the SEC prior to August 14, 2009. We assume no obligation and do not intend to update these forward-looking statements.

Non-GAAP Financial Measures

Please note that certain financial measures used in this presentation, such as adjusted EBITDA, are expressed on a non-GAAP basis. Adjusted EBITDA has been adjusted to exclude charges relating to stock-based compensation. Our GAAP results and GAAP to non-GAAP reconciliation can be found in this presentation, and have been posted on the Investors page of our website, which is found at www.rackspace.com.




NYSE: RAX

 **Founded: 1998 / IPO 2008**

 **Headquarters: San Antonio, TX**

Offices: Austin, TX
London, UK
Amsterdam, NL
Hong Kong, China

 **Data Centers:** San Antonio, Dallas, Chicago, Virginia, London, Hong Kong

 **2,648 Rackers; 70,803 customers; 52,269 servers**

Strategy

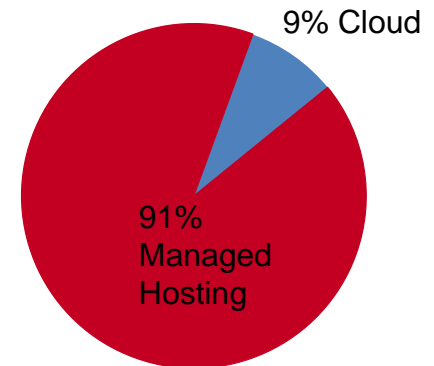
 **The Leader and Specialist in Hosted Computing**

 **Fanatical Experience for Businesses**

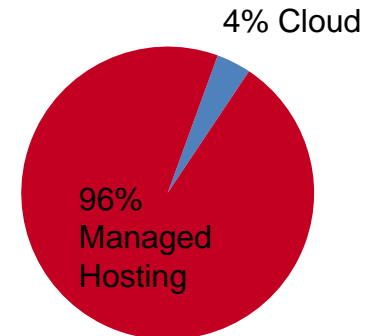
 **Complete Hybrid Hosting Suite for Hosting and Cloud Computing Services**

Revenue

2Q 2009
\$152M



2Q 2008
\$131M



Computing-as-a-Service Market Opportunity

Cloud Technologies Radically Increases an Already Attractive Opportunity



Computing-as-a-Service – Market opportunity is very large and growing



Paradigm Shift – Companies will consume IT over the web from service providers: radically less expensive; automated; non-core/strategic



Cloud Computing – New set of technologies that make existing market opportunity larger and rapidly accelerating paradigm shift



Full Suite of Services – Cloud + Dedicated Hosting = Hybrid Hosting

- Cloud computing is a natural extension of hosting

Dedicated & Managed Hosting Market:

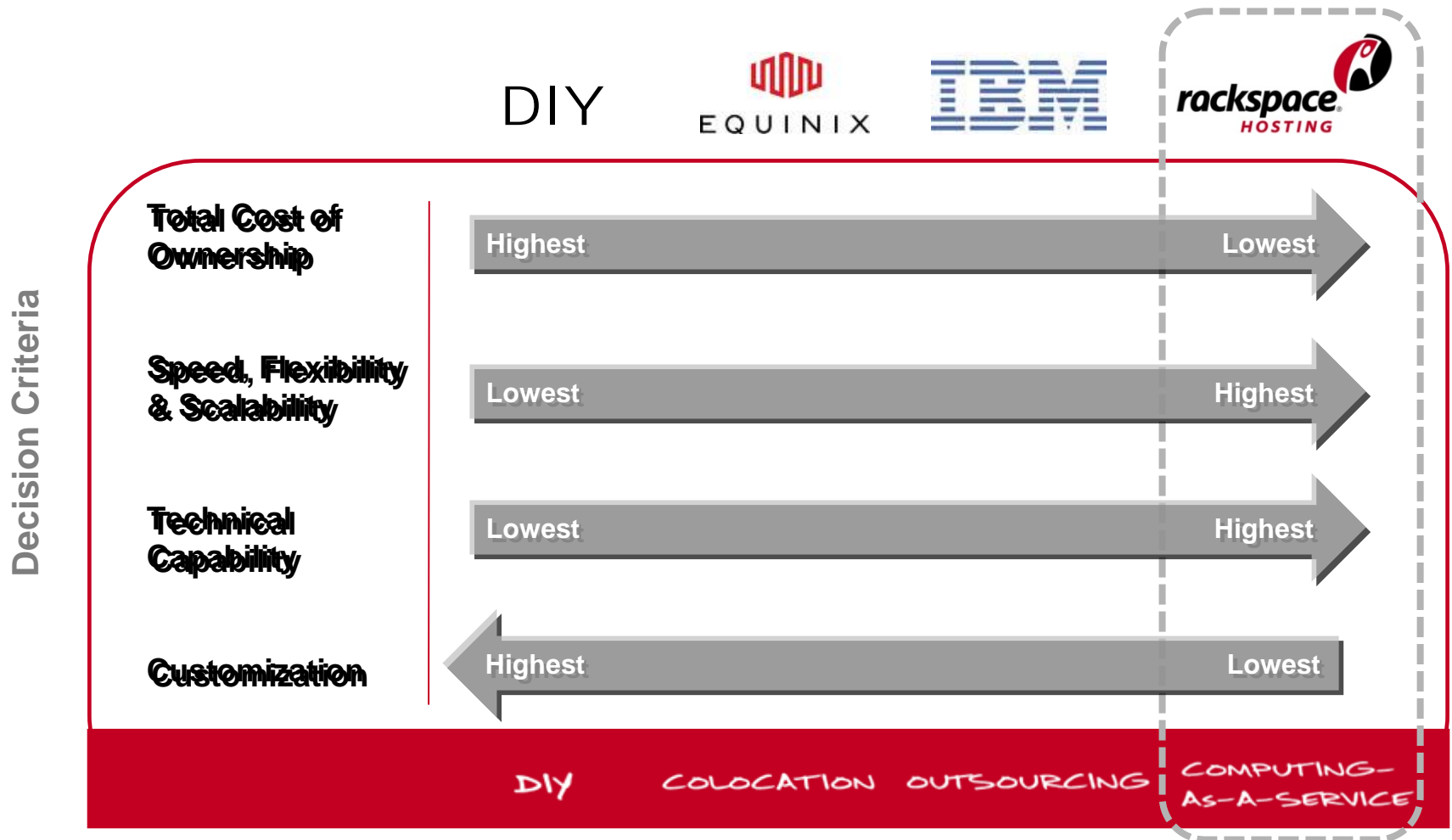
\$10.9B	▶	\$22.9B
2008		2012
20.4% CAGR		

Cloud Hosting Market:

\$16.2B	▶	\$42.3B
2008		2012
27.1% CAGR		

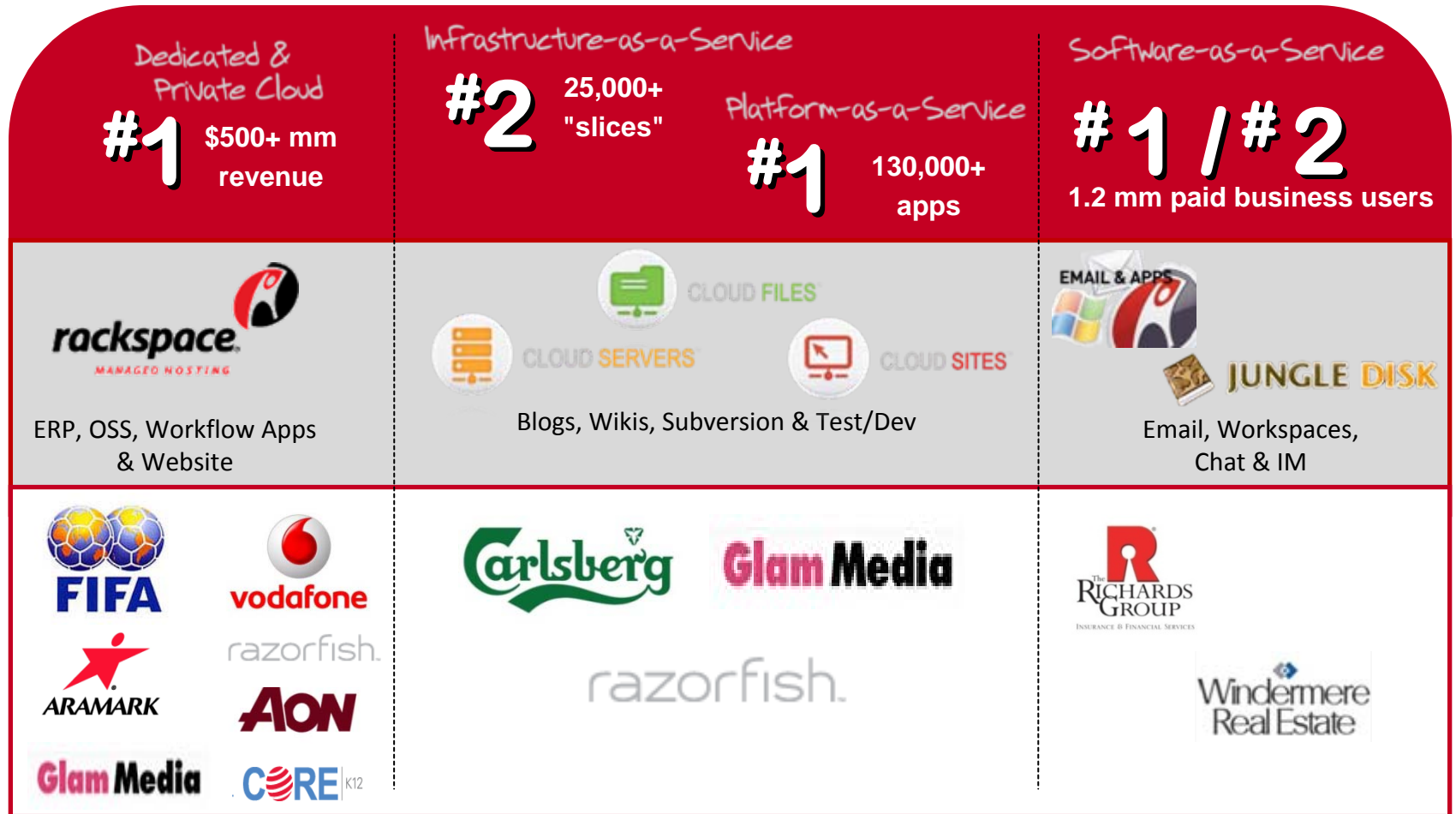


IT Alternatives & Categories



Full Suite of Hosting and Cloud Computing Services

Technology Form Factor for Every IT Workload



Source: Tier1Research, 2008 and company estimates of publicly available data of leading cloud hosting and fee business email providers

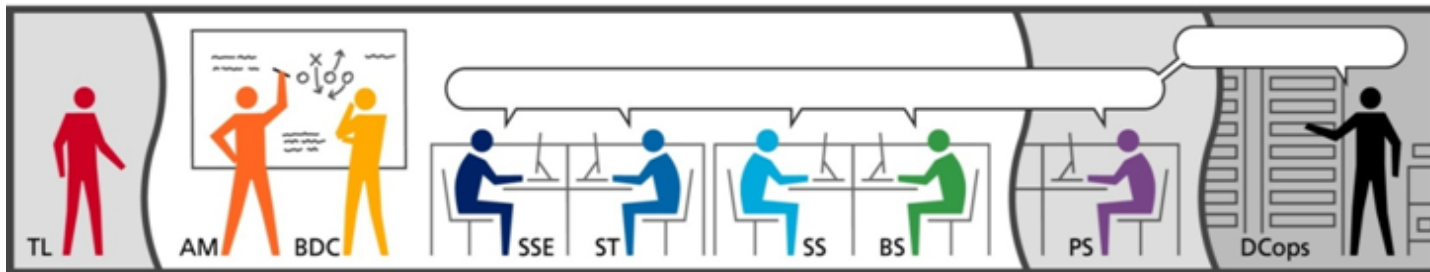


Fanatical Support Drives Higher Profitability and Returns

- Lower Churn: Extends customer lifecycle, reduces sales & marketing costs and increases capital efficiencies
- Customer Promoters: Viral selling opportunity drives lower customer acquisition costs and higher margins
- More Engaged Employees: Higher-performing employees with lower employee churn

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FINANCIAL TIMES
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WORKPLACES
UK
2008



- ▶ Team Lead
- ▶ Account Manager
- ▶ Business Development Consultant
- ▶ Senior Systems Engineer
- ▶ Support Technician
- ▶ Support Specialist
- ▶ Billing Specialist
- ▶ Professional Services
- ▶ Data Center Operations



Rackspace – Business Model

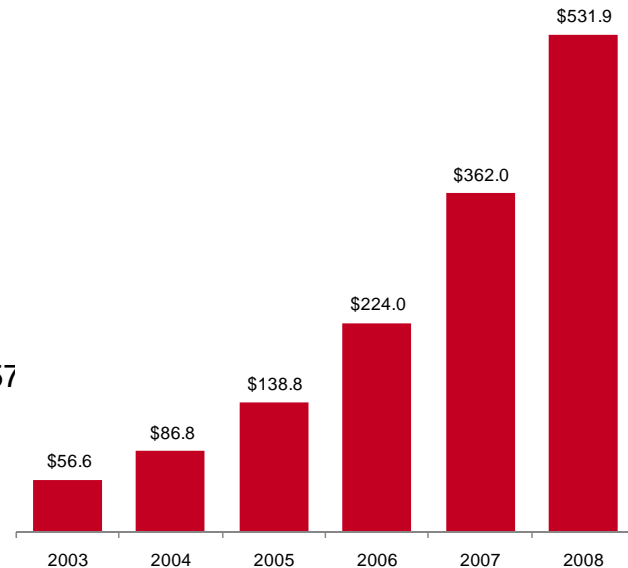
Hosting and Cloud Computing Suite Attracts Broad Group of Customers

- General purpose technology service
- No customer >2% of sales
- Customers in more than 120 countries
- World class technology service experience for businesses

Fanatical Support Differentiation Delivers Growth

- Subscription based, recurring revenue model
- Cloud offering experiencing hyper growth
- Consecutive annual and quarterly growth since inception, with a 57% from 2003 to 2008
- Growth nearly all organic

ANNUAL REVENUE(\$M)



“Loyalty Model” Drives Profitability and Returns

- Disciplined focus on profitable growth using unit based economics
- Lean services delivery model



Customer Level Economics – RAX Consolidated

Illustrative Scenario

Summary

NPV	\$1,476
Annual IRR	33.4%
Payback on DC	11 months
Payback on total capex	25 months

Financials

Revenue (per sqft)	\$500
Adj. EBITDA	\$159
Cash Flow	\$122
Cash Flow margin	24.4%
Avg. Customer Life	50 months

Assumptions

DC Build (per sqft)	\$1,400	← Data Center Investment
Life (in months)	120	
Customer Gear (per sqft)	\$1,625	
Life (in months)	36	
Replacement Capex	\$1,625	
Life (in months)	36	
Capex multiple	3.25x	← Customer Gear
Revenue (per sqft utilized)	\$500	← Fanatical Support
Defection churn rate	1.00%	
Adj. EBITDA margin	31.7%	← Investments Depress Margins
Tax rate	36.0%	

Discount rate (annual) 12%

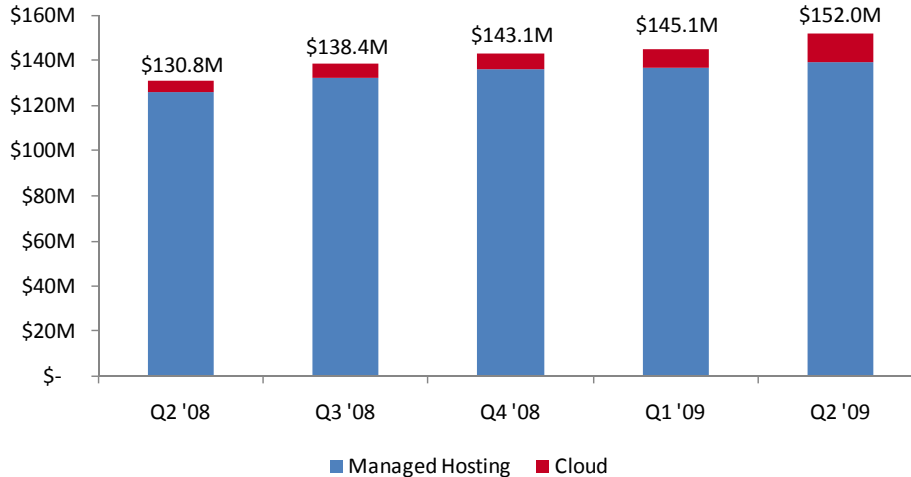
Cash Flows	Month 0	Month 1	Month 2	...	Month 36	...	Month 49	Month 50
Cash outlay (DC capex)	(\$1,400)	-	-		-		-	-
Cash outlay (customer capex)	(\$1,625)	-	-		(\$1,625)		-	-
Cash Inflow (MRR)	-	\$122	\$122		\$122		\$122	\$122
Cash Inflow (Unused cust capex)	-	-	-		-		-	\$596
Cash Inflow (Unused DC Capex)	-	-	-		-		-	\$817
Net Cash Flow	(\$3,025)	\$122	\$122		(\$1,503)		\$122	\$1,534
PV of Net Cash Flow	(\$3,025)	\$121	\$119		(\$1,051)		\$75	\$933

Note: Analysis contains certain assumptions including but not limited to, assumptions used to derive metrics such as the capex metrics and average customer life. Average customer life calculated as $1 / \text{churn} \% / 2$. Cash inflow from unused customer capex and unused DC capex assumes 60% and 100% of book value, respectively



Positioned for Next Cycle of Growth

Net Revenue

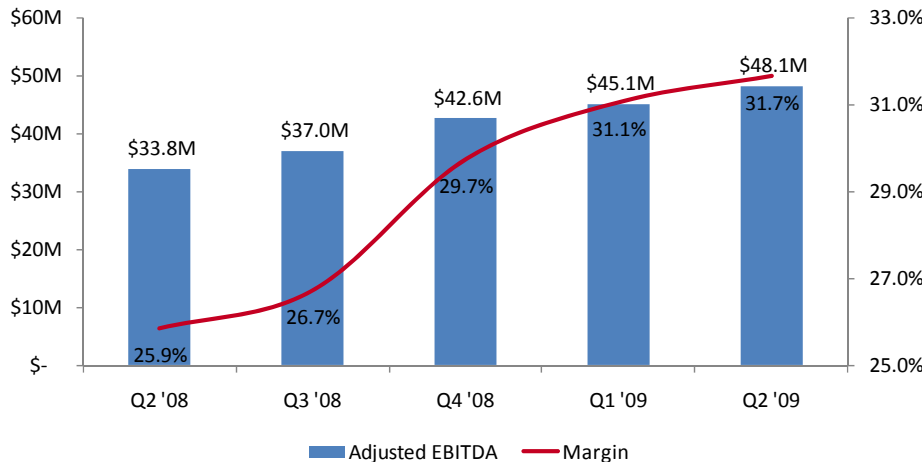


2Q 2009 record net revenue of \$152.0M (grew 16.2% y/y and 4.8% sequentially)

- Cloud revenue grew 144.8% y/y and 20% sequentially

2Q 2009 net revenue was negatively impacted by service credits by \$2.4M

Adjusted EBITDA



2Q 2009 record adjusted EBITDA of \$48.1M (grew 42.2% y/y and 6.8% sequentially)

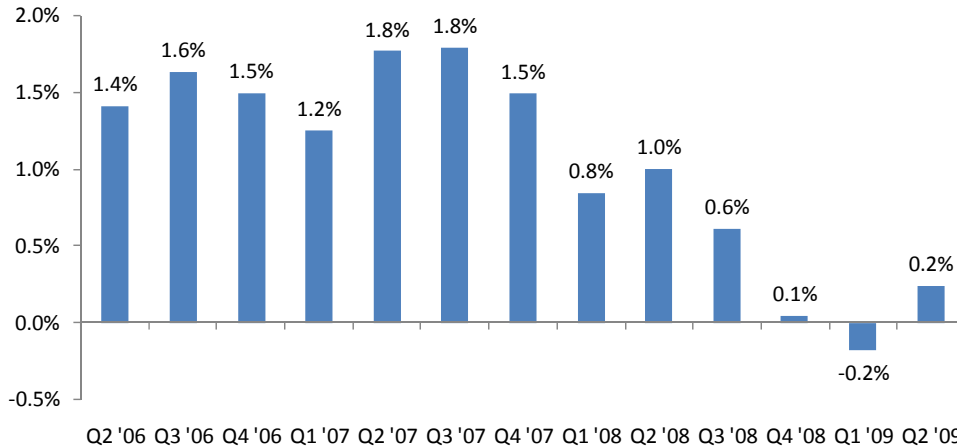
2Q 2009 adjusted EBITDA margins of 31.7%, up from 25.9% in 2Q 2008

- Company record adjusted EBITDA margin



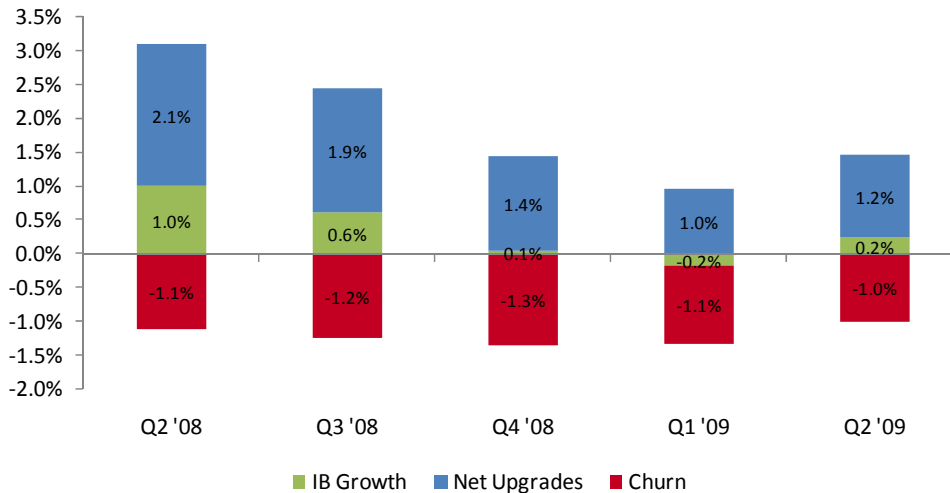
Installed Base Growth Highly Levered to Economic Rebound

IB Growth



- Monthly installed base growth has historically grown at ~1.5%, or almost 20% annually before adding any new customers
- Growth from existing customers is significantly more profitable than growth from acquiring new customers
- Our strategy has been to combat churn – highly levered to benefit from a rebound in growth

IB Growth & Churn



- Churn improved to -1.0% from -1.1% in 1Q 2009
 - Lowest churn level since 4Q 2007
- Installed base growth for 2Q of 0.2% vs. -0.2% in 1Q as net upgrades increased from 1.0% to 1.2%
 - First sequential increase in net upgrades since 3Q 2007
- RAX is highly levered to benefit from an economic rebound given installed base growth engine



Strong Balance Sheet and Fully Funded

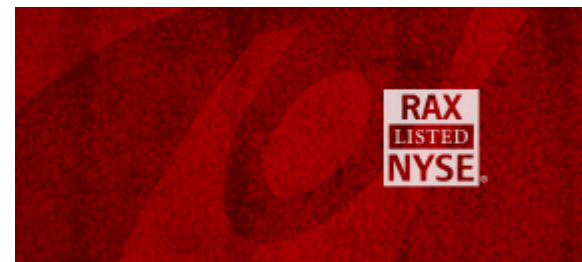
Capitalization and Leverage (\$M)

Cash and Cash Equivalents	\$147.9
Capital Lease Obligations	\$104.1
Debt	\$106.2
Total Interest-Bearing Debt	\$210.3
Total Stockholder's Equity	\$308.7
Total Capitalization	\$518.9
Total Debt/LTM Adj. EBITDA	1.22x
Net Debt/LTM Adj. EBITDA	0.36x

Note: Capitalization as of June 30, 2009

Liquidity Highlights

- Raised \$145M of IPO proceeds in 2008
- 2009 Capex of \$165M - \$185M down from \$251M in 2008
- 2009 Capex estimates:
 - Customer Equipment \$100-\$115M
 - Data Centers \$30-\$35M
 - Office \$15M
 - Cap Software and Other \$20M
- Fully funded
- Repaid \$50M on revolving credit facility in July 2009
 - PF Total Debt / LTM Adj. EBITDA: 0.93x





Key Metrics

Key Metrics

(Dollar amounts in thousands, except annualized net revenue per average technical square foot)

	Three Months Ended				
	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009
Growth					
Managed hosting customers at period end	17,220	18,012	18,480	19,048	19,363
Cloud customers at period end*	16,387	18,173	34,820	43,030	51,440
Number of customers at period end	33,607	36,185	53,300	62,078	70,803
Managed hosting, net revenue	\$ 125,498	\$ 131,908	\$ 134,275	\$ 134,204	\$ 138,943
Cloud, net revenue	\$ 5,331	\$ 6,446	\$ 8,862	\$ 10,873	\$ 13,052
Net revenue	\$ 130,829	\$ 138,354	\$ 143,137	\$ 145,077	\$ 151,995
Revenue growth (year over year)	55.7%	44.0%	34.2%	21.3%	16.2%
Net upgrades (monthly average)	2.1%	1.8%	1.4%	0.9%	1.2%
Churn (monthly average)	-1.1%	-1.2%	-1.3%	-1.1%	-1.0%
Growth in installed base (monthly average)	1.0%	0.6%	0.1%	-0.2%	0.2%
Number of employees (Rackers) at period end	2,422	2,536	2,611	2,661	2,648
Number of servers deployed at period end	42,424	45,231	47,518	50,038	52,269
Profitability					
Income from operations	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021	\$ 13,403
Depreciation and amortization	\$ 21,637	\$ 23,174	\$ 26,310	\$ 27,804	\$ 29,711
Share-based compensation expense					
Cost of revenue	\$ 603	\$ 819	\$ 678	\$ 629	\$ 675
Sales and marketing	\$ 533	\$ 612	\$ 595	\$ 698	\$ 721
General and administrative	\$ 2,668	\$ 2,886	\$ 2,871	\$ 2,910	\$ 3,621
Total share-based compensation expense	\$ 3,804	\$ 4,317	\$ 4,144	\$ 4,237	\$ 5,017
Adjusted EBITDA (1)	\$ 33,837	\$ 36,981	\$ 42,579	\$ 45,062	\$ 48,131
Adjusted EBITDA margin (1)	25.9%	26.7%	29.7%	31.1%	31.7%
Operating income margin	6.4%	6.9%	8.5%	9.0%	8.8%
Income from operations	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021	\$ 13,403
Effective tax rate	37.9%	29.6%	27.7%	36.6%	36.2%
Net operating profit after tax (NOPAT) (1)	\$ 5,214	\$ 6,681	\$ 8,766	\$ 8,255	\$ 8,551
NOPAT margin	4.0%	4.8%	6.1%	5.7%	5.6%

* December 31, 2008, March 31, 2009, and June 30, 2009 amounts include customers resulting from the Slicehost acquisition, and March 31, 2009 and June 30, 2009 amounts include SaaS customers for Jungle Disk.

(1) See discussion and reconciliation of our Non-GAAP financial measures to the most comparable GAAP measures.



Key Metrics (cont'd)

(Dollar amounts in thousands, except annualized net revenue per average technical square foot)

	Three Months Ended				
	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009
Capital efficiency and returns					
Interest bearing debt	\$ 183,553	\$ 297,933	\$ 300,413	\$ 201,507	\$ 210,284
Stockholders' equity	\$ 117,417	\$ 269,008	\$ 269,684	\$ 282,880	\$ 308,823
Less: Excess cash	\$ -	\$ (235,421)	\$ (200,620)	\$ (117,611)	\$ (129,638)
Capital base	\$ 300,970	\$ 331,520	\$ 369,477	\$ 366,776	\$ 389,469
Average capital base	\$ 275,935	\$ 316,245	\$ 350,497	\$ 368,127	\$ 378,123
Capital turnover (annualized)	1.90	1.75	1.63	1.58	1.61
Return on capital (annualized) (1)	7.6%	8.5%	10.0%	9.0%	9.0%
Capital expenditures					
Purchases of property and equipment, net	\$ 40,273	\$ 45,328	\$ 32,547	\$ 25,589	\$ 31,027
Vendor financed equipment purchases	\$ 26,014	\$ 23,009	\$ 14,848	\$ 11,683	\$ 23,637
Total capital expenditures	\$ 66,287	\$ 68,337	\$ 47,395	\$ 37,272	\$ 54,664
Customer gear	\$ 27,347	\$ 27,627	\$ 23,073	\$ 19,255	\$ 32,448
Data center build outs	\$ 18,509	\$ 21,679	\$ 14,240	\$ 11,386	\$ 13,914
Office build outs	\$ 12,815	\$ 11,227	\$ 8,340	\$ 2,239	\$ 1,651
Capitalized software and other projects	\$ 7,616	\$ 7,804	\$ 1,742	\$ 4,392	\$ 6,651
Total capital expenditures	\$ 66,287	\$ 68,337	\$ 47,395	\$ 37,272	\$ 54,664
Infrastructure capacity and utilization					
Technical square feet of data center space at period end **	133,462	136,962	134,923	157,523	177,371
Annualized net revenue per average technical square foot **	\$4,217	\$4,093	\$4,212	\$3,969	\$3,631
Utilization rate at period end	59.1%	63.4%	70.4%	64.6%	59.8%

** The technical square feet as of June 30, 2009, includes the addition of 18,748 square feet for phase two of our Slough, U.K. data center and 1,100 square feet for the first phase of our new Virginia data center. 11,750 square feet will be removed in the 3rd quarter of 2009 for operations at a U.K. data center that will be decommissioned and migrated to the Slough data center.

(1) See discussion and reconciliation of our Non-GAAP financial measures to the most comparable GAAP measures.



Non-GAAP Reconciliation (unaudited)

Adjusted EBITDA	Three Months Ended					Six Months Ended June 30,	
	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009	2008	2009
(Dollars in thousands)							
Net revenues	\$ 130,829	\$ 138,354	\$ 143,137	\$ 145,077	\$ 151,995	\$ 250,442	\$ 297,072
Income from operations	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021	\$ 13,403	\$ 18,534	\$ 26,424
Net income	\$ 4,182	\$ 5,235	\$ 6,844	\$ 6,588	\$ 6,991	\$ 9,624	\$ 13,579
Plus: Income taxes	\$ 2,553	\$ 2,199	\$ 2,620	\$ 3,807	\$ 3,973	\$ 6,166	\$ 7,780
Plus: Total other (income) expense	\$ 1,661	\$ 2,056	\$ 2,661	\$ 2,626	\$ 2,439	\$ 2,744	\$ 5,065
Plus: Depreciation and amortization	\$ 21,637	\$ 23,174	\$ 26,310	\$ 27,804	\$ 29,711	\$ 40,688	\$ 57,515
Plus: Share-based compensation expense	\$ 3,804	\$ 4,317	\$ 4,144	\$ 4,237	\$ 5,017	\$ 6,556	\$ 9,254
Adjusted EBITDA	\$ 33,837	\$ 36,981	\$ 42,579	\$ 45,062	\$ 48,131	\$ 65,778	\$ 93,193
Operating income margin	6.4%	6.9%	8.5%	9.0%	8.8%	7.4%	8.9%
Adjusted EBITDA margin	25.9%	26.7%	29.7%	31.1%	31.7%	26.3%	31.4%

Return on Capital	Three Months Ended				
	June 30, 2008	September 30, 2008	December 31, 2008	March 31, 2009	June 30, 2009
(Dollars in thousands)					
Income from operations	\$ 8,396	\$ 9,490	\$ 12,125	\$ 13,021	\$ 13,403
Effective tax rate	37.9%	29.6%	27.7%	36.6%	36.2%
Net operating profit after tax (NOPAT)	\$ 5,214	\$ 6,681	\$ 8,766	\$ 8,255	\$ 8,551
Net income	\$ 4,182	\$ 5,235	\$ 6,844	\$ 6,588	\$ 6,991
Average total assets	\$ 381,815	\$ 546,761	\$ 685,236	\$ 643,349	\$ 629,114
Less: Average excess cash	\$ -	\$ (117,710)	\$ (218,021)	\$ (159,116)	\$ (123,625)
Less: Average accounts payable and accrued expenses	\$ (76,494)	\$ (79,837)	\$ (76,564)	\$ (71,299)	\$ (79,263)
Less: Average deferred revenues (current and non-current)	\$ (19,762)	\$ (20,077)	\$ (20,111)	\$ (20,271)	\$ (20,193)
Less: Average other non-current liabilities	\$ (9,624)	\$ (12,892)	\$ (20,043)	\$ (24,536)	\$ (27,910)
Average capital base	\$ 275,935	\$ 316,245	\$ 350,497	\$ 368,127	\$ 378,123
Return on Assets (Annualized)	4.4%	3.8%	4.0%	4.1%	4.4%
Return on Capital (Annualized)	7.6%	8.5%	10.0%	9.0%	9.0%

Adjusted Free Cash Flow (in thousands)	
(Three months ended June 30, 2009)	
Adjusted EBITDA	\$ 48,131
Less: Total capital expenditures	\$ (54,664)
Less: Cash payments for interest, net	\$ (2,250)
Less: Cash payments for income taxes, net	\$ 741
Adjusted free cash flow	\$ (8,042)

Net Leverage (Dollars in thousands)	
(As of June 30, 2009)	
Capital Lease Obligations	\$ 104,088
Debt	\$ 106,196
Total Interest-bearing Debt	\$ 210,284
Less: Cash and cash equivalents	\$ (147,877)
Net Debt	\$ 62,407
Adjusted EBITDA (trailing twelve months)	\$ 172,753
Net Leverage	0.36x

