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<<Colby Synesael, Analyst, Cowen and Company>>

Good afternoon. My name is Colby Synesael and I am the telecom services analyst here at Cowen. Welcome to our first day of the Cowen 43rd Annual TMT Conference. For this session we have Rackspace and from Rackspace we have Karl Pichler, who is the Company's Chief Financial Officer. This is going to be a 40-minute fireside chat. I will probably go through most of that time with my own questions, but towards the end I will open it up to the audience for questions as well.

So first off, thank you for being here. So obviously some concern, I guess, coming out of first-quarter results, more specific as it relates to the second-quarter guidance. And I thought we would just kind of hit that right on. So related to second quarter 2015 guidance, on your first-quarter call you provided 2Q guidance that was about $10 million lower than expected and you attributed it to two things. One was a one-off churn event and the other was delayed installs for some bigger deals, so let's talk about the churn first.

So as it relates to churn, you said you had one large customer that, for data sovereignty issues, was forced to move a piece of their footprint that was hosted in the UK facility to Africa starting on April 1. I know you haven't mentioned the name, but there are a few articles online that mention the customer's name and that the migration had been planned for some time. Can you tell us when you found out about that customer planning on migrating? And how was that – what you had originally assumed in your 2015 guidance, which you just provided on February 17.

<< Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Right, let me take a step back and talk a little bit about the history of this customer relationship. This has been a customer that has grown a lot with us over the years. It's one of our largest customers in the Company and the largest one in our UK business. What we do for them, they are a telco company that has a product that allows payments to be facilitated through cell phones and they use this technology to serve markets across a couple of countries in the African continent.

And the growth that we have seen with them was largely due to the success of that product and then also extension into new countries. And so over the years – this is a company that has considerable internal resources themselves. They have been under pressure to utilize their own resources. We have had a situation in 2011 where we RFP-ed against their in-house IT department and we lost. And we basically lost an additional footprint that was to be deployed. They went back and tried to deploy it on their own, acquired the capital, and eventually came back to us because they couldn't get it to run the way that they wanted it to run.

So we have a long-standing relationship with them; I guess a mutually beneficial one. One that has always been characterized by their need or desire or pressure to deploy certain stuff either in-house or in the countries where they provide their service to the end customer.

So I would say that there is a long-standing debate back and forth and there were some churn events in the past, and there are definitely going to be churn events in the future, but in general, over the relationship – the period of the relationship this has been a net positive grower. So in this specific case we have been – known about this. We have been talking about this. These are agreements that are being finalized and that one has been finalized shortly before the kind of specifics of the renewal of the contract has been finalized in late Q1.

<<Colby Synesael, Analyst, Cowen and Company>>

So you had your call on February 17. It sounds like then you had – you finalized the churn situation shortly thereafter and then obviously happened on April 1. But based on what I read online, it seems like this had been planned for some time, this migration. So I would assume that at least them churning – maybe it wasn't April 1, but them churning was assumed in guidance, is that a fair assumption?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah, specifically, I mean, the thing is that we have – if you think about the components of churn, there's defection churn and downgrade churn. Defection churn is somewhere between 0.5% and 1%, fairly consistent on a monthly basis in our subscription business, and then we have downgrade-related churn that is somewhere around 1% roughly. And so we don't explicitly use certain – other than when we know a very specific large event is going to occur at a specific time, the way that we plan is that this is normal run rate of the churn situation. So it's not really something that we plan out for the very far future, because in a lot of instances the churn situation gets delayed or accelerated or the timing is not clear. So we don't really – we factor in a churn assumption and then the specific timing is what creates volatility around the outcome.

<<Colby Synesael, Analyst, Cowen and Company>>

It sounds like you've – the response is that you always assume some churn in the business.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah.

<<Colby Synesael, Analyst, Cowen and Company>>

Whether it's your customer or somebody else.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah.

<<Colby Synesael, Analyst, Cowen and Company>>

And there was no explicit assumption made for this particular customer because who knows if it was going to happen or not based on timing. And then I guess – I thought I heard you say this, but is there more churn to be had as it relates to this particular customer, you just don't know when it's going to happen?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Well, there is always the potential for them to take other parts of their deployment, but this was an example that we used, not to justify the entire Q2 guidance, but just as a contributing factor. So do we know any specificity around future deployments or decommissioning of future deployments? No.

<<Colby Synesael, Analyst, Cowen and Company>>

I guess, just while we're on the topic of churn, are there other notable churn events, not this customer, but just broadly that are expected this year that are worth noting?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

No.

<<Colby Synesael, Analyst, Cowen and Company>>

I guess then let's talk about the bigger deals that got delayed. Is it really just one large deal? I've had this conversation with a few different people. Is it literally just one large deal that you had expected to install that got pushed out, or was it multiple deals that had gotten pushed out?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

So what happened over the last year, in 2014 Q2, Q3, and Q4 as we laid out and commented on kind of the growth trajectory and where it was coming from, we had a good contribution of large deal opportunities and large deal flows that were closed and came online during the later part of the last year. And that was fairly consistent. So we had good deal flow.

They had long deal cycles, so six months to nine months on a larger deal, and then they had longer deployment cycles than our standardized business. But given the momentum that we were building during the earlier part of last year, we had a fairly consistent flow of these deals coming in and that's what we attributed to – that's what we were able to attribute the 4%-plus growth rate coming from. And for this year we had the seasonality as we expected it in Q2.

Q1 came in pretty much from a revenue perspective as we expected. From an activities perspective, it was slow. It was rebounding, as we have seen in previous years. And it has rebounded in the sense that December and January are the low points in terms of activity and consumption on the utility side of the product.

February started to kick in a little bit later, but towards the end of the month. And March was stronger than February and April was stronger than March. That's what gives us the momentum that – that is what gives us the confidence that we see an acceleration again as we've seen last year.

<<Colby Synesael, Analyst, Cowen and Company>>

So it's not really any one particular deal. It's not like you had one customer in mind.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Well, there was one – again, one color point of what really happened in terms of the upside down in terms of the materialization within the quarter that contributed to the weak guidance in Q2.

<<Colby Synesael, Analyst, Cowen and Company>>

I guess just a point of clarification. Again another question we have gotten is these deals that you are expecting to occur in the June time period, is that when they are expected to start to get installed or is that when they are expected to get signed? Because I think some of the questions are, the deals that they keep on talking about, are they deals that they have already signed and then they are getting installed?

Are these deals they haven't even signed and they have to sign them in June and then they get installed in third and fourth quarter? Could you give us a little bit more explicitness, because this is such a big issue, in terms of what you mean by big deals ramping up through the course of the quarter?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes, okay, so everything that is pipeline-related is not signed yet. Right, so when we talk about pipeline visibility, it's opportunities that have not been signed, so they are being worked on and hopefully closed in the near future. Deals that have been closed obviously have then a deployment cycle afterwards. And that one specific deal that we've called out has been closed in April and will be deployed in June, when it will also start generating revenue.

<<Colby Synesael, Analyst, Cowen and Company>>

It was signed in April, deployed in June.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes. Online in June.

<<Colby Synesael, Analyst, Cowen and Company>>

Online in June.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Deployed right now.

<<Colby Synesael, Analyst, Cowen and Company>>

Yeah got it, so revenues start up in June.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes.

<<Colby Synesael, Analyst, Cowen and Company>>

Then, obviously, you get the full quarterly impact of that and other deals as we go in to the third quarter, and again, part of the reason we should expect some form of an acceleration?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

That's right.

<<Colby Synesael, Analyst, Cowen and Company>>

Got you. And I guess, as we sit here now in the end of May, so two months into the second quarter, is it still your view that the slowdown that you saw was seasonal?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah, I mean, look, we have to accelerate, right? There's no question about that. The activities have to improve and the activities always have to improve. If you want to clock the same percentage growth rate on a bigger base, you have to increase the sales volume. That's true and that is not different this year, so we need to accelerate and book more deals than we have booked during the first quarter. That is absolutely the case. We have visibility into the larger opportunities in terms of pipeline, what we are working on.

We have no reason to believe that anything has changed significantly competitively, nor do we have any falloff in the lead flow, so that's what gives us confidence that – confidence, not assurance but confidence that we are able to accelerate.

<<Colby Synesael, Analyst, Cowen and Company>>

Obviously the deals being signed has to be happening effectively around now for it to start to kick in, in June and then more so into the third and fourth quarter.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah.

<<Colby Synesael, Analyst, Cowen and Company>>

Again, just kind of to push you one more time. It was really January/February where it was expected to be slow because of the seasonality and here we are almost in the middle of the year. If it was seasonal, I would expect that right now you are seeing some strength.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes, the activity is much stronger now than it was in January and February.

<<Colby Synesael, Analyst, Cowen and Company>>

Okay. One of the derivative realizations, at least that we've had based on what's happened, is really how dependent the Company has become on large deals to sustain growth. If I go back, quite frankly, just last year, I kind of thought that this was an SMB-oriented business; for the most part still on that. The large deal signings was really incremental. It was where the upflow was going to come from. And based on what just transpired and what the comments are as it relates to the second quarter and what the guidance is without these deals, it seems like you are living and dying on these large deals now. And I'm just trying to get a sense if I'm depicting that correctly.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Well, I wouldn't go that far. I would say that our sales efforts around larger opportunities has been building up steadily over the last three to four years. If you go back a long time, five years ago, we had entirely a transactional business and more and more we are working on those larger opportunities. As we laid out last year, we had great success with those.

More so, quite frankly, than we anticipated. The revenue contribution on the marginal basis when you think about the growth is about a third, so it is quite significant in terms of what momentum it creates. But it's not yet significant in terms of the overall revenue base. But on the growth basis it is certainly an important contributor.

<<Colby Synesael, Analyst, Cowen and Company>>

I guess that's what I meant, which is the growth. I appreciate this is a recurring revenue-based business model and I appreciate that the majority of the customers historically have been an SMB, therefore, so is your revenue on a recurring basis today. But in terms of where growth is coming from, the SMB benefit, if you will, to growth seems like it's dropped off fairly meaningful relative to what I thought maybe was happening a year ago.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

It hasn't dropped off. We've just added additional layers of opportunities and deal flow on top. I mean it's not really…

<<Colby Synesael, Analyst, Cowen and Company>>

Basically, the law of large numbers where…

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah, we just have to add additional ways.

<<Colby Synesael, Analyst, Cowen and Company>>

And you are not able to go after a larger, absolute dollar SMB opportunity that's just not there to be had. And, therefore, if you really want to continue this strong growth at the size of company you are, you have to go after these large deals. It has to come from them.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes, and plus we can serve them well, and so it's a good opportunity for us, yes.

<<Colby Synesael, Analyst, Cowen and Company>>

So my last question is related to second-quarter guidance. Would you say it was the timing of the churn event or the slower installs that had a bigger impact on second quarter guidance being what it is?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

The churn had certainly a bigger impact of the two, because of it was April 1 and it was quite significant.

<<Colby Synesael, Analyst, Cowen and Company>>

So want to shift over to 2015 guidance. Despite the weak 2Q guidance, you maintained 2015 guidance and, as you've already said, to hit the low end it would imply about 3.8% sequential growth in the third and fourth quarter. This doesn't seem overly aggressive, considering the greater than 4% growth you just did in third and fourth quarter of last year, as well as management comments that your pipeline and backlog are strong. But what can you tell investors that can assure them about the Company's ability to execute? It seems like that's where the real point of contention really is right now.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes, as I mentioned before, I mean, in terms of assurance, we need to execute, so there's no guarantee for execution success. Having said that, it is a pattern that has repeated itself year after year. We have always had more activity and more success in the middle of the year. We always had a sluggish start of the year. We had a very slow start to last year and had a nice acceleration in the past. And again, we don't really see any discontinuation in lead flows. We have a pipeline visibility in the larger opportunities. We have consistency on the smaller deals, where we don't have a lot of visibility but more consistency. So, again, we need to accelerate and that's our goal and our intentions.

<<Colby Synesael, Analyst, Cowen and Company>>

But it seems like if you don't do it – it seems like the market is there, the opportunity is there. The salesforce has done a good job figuring out where those opportunities are; you see them. If we get to you reporting your fourth quarter results for 2015 and you haven't met your guidance, it seems like it was truly an execution issue.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Well, there is always – you can attribute it to execution or competition or whatever it is, but at the end of the day we believe that this is a long-term growth opportunity and we go after it as fast as we can. And that is kind of…

<<Colby Synesael, Analyst, Cowen and Company>>

Also one of the things Taylor said on the call was that going forward, as you focus more on large deals, revenue could – excuse me, larger deals, revenue could be more lumpy, which obviously investors hate hearing and surprised, me considering their current nature in what I thought was a fairly – a company operating at scale. Meaning that if you are a big company, which you are – $6 billion, strong revenue stream – if you missed a few large deals I would've thought that there's enough large deals that it just kind of gets smoothed out behind the teams. And us, as observers of the Company looking in, don't necessarily see that. When I hear a CEO talking about lumpy deals impacting a $6 billion company, it makes me scratch my head. So can you just talk about what he meant when he said lumpy?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes, it's really on the margin in terms of growth rate and sequential growth rate specifically, which is that the low activity in Q1, plus the timing of the materialization of the deals that we did close, really have a large impact on the sequential rate. And so, again the $6 billion in market cap number; the revenue number is $2 billion and the marginal revenue numbers are much, much smaller.

So the contribution that you have from a deal that gives you $500,000 a month, for example, is fairly significant and timing thereof matters a lot in terms of sequential growth rate. So that's really what he is alluding to. It's not like overall revenue, but it's really on the margin what happens sequentially quarter after quarter.

<<Colby Synesael, Analyst, Cowen and Company>>

Then I guess also for housekeeping, can you remind us what CapEx guidance is, because you guys didn't mention it on the call, and how this might change if you were to come in at the lower end of your revenue guidance?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes. Okay, so CapEx guidance we have guided towards 25% of revenue, which is similar to last year. We have traditionally provided CapEx guidance or CapEx explanation in terms of a combination of maintenance capital or maintenance CapEx requirements that are roughly 10% of prior year's revenue and then growth CapEx, which is roughly $0.50 on $1 of incremental revenue year-over-year. That is a very good proxy that has worked remarkably well over the years. In some years it has been higher; in some years it has been slower, depending on what capital capacity pools we are building up in new facilities or for new products. And then as we use them and grow into them. And so what we've done last year is we summarized both elements into just the proxy as a percent of revenue, but the relationship still holds, which means that if growth is lower than the $10.50 would imply, less than 25%. If growth is higher, it would be more. So it would be certainly very much success based. If we come in at the lower end of the guidance range, it's probably less than 25%.

<<Colby Synesael, Analyst, Cowen and Company>>

Less than 25%?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes.

<<Colby Synesael, Analyst, Cowen and Company>>

Okay. So pretty positively correlated to one another?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Very, very positively correlated.

<<Colby Synesael, Analyst, Cowen and Company>>

And I guess before I switch topics – and I apologize for giving you a hard time here, but the stock is down roughly 20% since you guys reported. You are taking a lot of flak. There’s been some negative reports that have come out by some of my competitors. Do you think it’s justified? I mean, we are making a big deal out of you missing your second quarter numbers, concerns around churn, concerns around bookings, but you did maintain your guidance. Were you surprised by this reaction? Do you think it’s warranted? I would love just to get just your perspective after talking to dozens, if not hundreds, of investors since you reported.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes, look I mean, I think we’ve seen a little bit of the same story last year. Right, last year about this time about last year, exactly this time, we have come out of a situation where Google initiated a price war and Amazon pulled after and Microsoft did the same. And the whole world was basically saying you are dead and you can’t really grow anymore, or if you are growing, then your growth is not going to be profitable. And so there is really no space for Rackspace anymore in the future. And I think we have demonstrated that there is very much an opportunity for us and there is very much growth opportunities for us. And I think we have demonstrated that in Q2, Q3, and Q4. But I think the general perception is still that there is some sort of a binary worldview on our company and whenever there is anything that points to the bear case then the bears are jumping all over it. And so I can’t control that. That is just a matter of life, I guess, for us as a company.

<<Colby Synesael, Analyst, Cowen and Company>>

Okay. Want to shift over to public cloud partnerships. So I was listening to you talk to Phil Cusick at JPMorgan last week and you explicitly mentioned AWS by name as someone you are interested in partnering with. Obviously, this is something that others, including ourselves, have talked about, but I was surprised to hear you mention it before any formal deal has been announced. Is it fair to assume then that the fact that you are comfortable mentioning AWS by name that you are far enough down the path with AWS that both parties are already committed to some form of a deal, it’s just a matter of ironing out what some of the details are going be?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Not necessarily. Basically, the way that we are thinking about this is – that we have always thought about these choices in terms of what we are supporting and what we are providing expertise on. There's always been the areas where we have to – where the technology market is going and where you have the most traction. So we basically have two – we obviously know that Amazon has a very dominant platform that is very capable, is growing very fast, has a lot of momentum, and a huge following.

And then with our customers as well that have stated their desire to help us – for us to help them deploy certain workloads on AWS. So we both have customer pull and we have every reason – well, not every reason, but proof obviously that AWS is a very important platform that needs support. And we've always done that as a business and we've stayed away from supporting third-party clouds in the past because we can't control the full stack, and that has certain implications. It's not necessarily better or worse; it is a different customer experience than if you can provide single-tenancy, high degrees of customization and much more controllability around the stack than if you basically provide service on a product stack that is completely outside of your control, okay.

So our customers will have to make a choice what they want and our task is to position the other form factors and their trade-offs relative to AWS. But there is no question that customers need expertise and support on deploying their apps on other infrastructures. We see there is a market and we want to go after it. Now, with respect to any specific agreement, there is tooling requirements and there is expertise requirements in terms of us doing that effectively and ideally there is an arrangement in place, whether it's a reseller agreement or some other form of partnership, but it's not really necessary to do that. We actually already today, as a matter of goodwill, help customers when they have certain parts of their workload with AWS.

<<Colby Synesael, Analyst, Cowen and Company>>

I would think that based on the fanatical support value proposition which is Rackspace, your own reputation, quite frankly – not just with your customers, but in terms of the industry; how people like Gartner, for example, think of you. If you didn't have some type of buy-in by AWS, some type of an arrangement that gives you some type of prioritization or some type of technical integration, if you will, into their own solution to kind of not simply hang up the phone with your customer, then call AWS and just effectively be the middleman, but someone who actually can resolve the issue, it seems like it's not necessarily something that will be a good idea for you guys to do.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

It's certainly a good idea, but there is – that's something that's not announced and we'll see how that evolves in terms of structuring that relationship.

<<Colby Synesael, Analyst, Cowen and Company>>

I guess – I realize you guys already have a lot of AWS certified developers on your payroll, but do you have enough internal resources today that if you guys were to launch that tomorrow or put out a press release tomorrow that you could actually role that out? Or is there a lot of work that still needs to be done to put yourself in a position to actually be offering whatever that service would be?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

So Taylor has talked about that very specifically and he calls it or we call it a Horizon 3 initiative internally. What that means is…

<<Colby Synesael, Analyst, Cowen and Company>>

Horizon 3?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Horizon 3, yes. So what that means basically is that we are working right now on the offer: what does the offer look like? What do we do? What value proposition do we provide on top of that infrastructure? There are certain high-value tasks and there are low-value tasks, and we are less interested in low-value tasks. For example, a lot of customers have difficulties understanding the Amazon bill.

That is a low-value task. We don't want to become a billing inquiry call center; that is not something that we want to do. But related to that, or more importantly, capacity management and the management of the consumption of those resources is a very high-value task, which ultimately reflects itself, of course, in the bill. And so what we are working on right now is kind of a dual view in terms of – with respect to any third-party cloud, whether it is Azure or Google or AWS.

I am using AWS because it has that largest market traction and because we have always been supporting the technologies that have the largest traction. And so in any of these there are really two ways to approach this. One is what we call infrastructure-up, which means that we are providing the expertise for you to deploy an application on their stack. And most companies that use their stack today do that themselves; they have the expertise to do it themselves.

There are several companies that have started to provide services around deployment of applications, but we believe we have a strong history and a strong culture, the right setup to provide it on a standardized, scalable basis. And so that is basically us being system administrators, operators, dev ops engineers to deploy an application in the most effective matter on either our infrastructure or somebody else's infrastructure. That is a complement.

<<Colby Synesael, Analyst, Cowen and Company>>

So the net short answer would be that you do have the ability to do this today?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Well, let me finish. And then the second piece is application down, which basically when we think about solutions, let's say a Magento solution or an e-commerce solution or a kind of highly-integrated stack of infrastructure and software packages and then services that host a specific type of application like an e-commerce, like a database, that can be deployed really anywhere. Our task is then to find the best way to deploy it and use it as an ingredient rather than a complementary form factor. And so the way that we organize it operationally is that we are basically starting it as an incubated business, where we have a small team that's growing that is figuring out what that offer set is. And that explains why Taylor also mentioned there's not going to be a large revenue contribution, because we are still in that stage where we are defining the offer, where we are thinking how we charge, what we do, how we staff it, how we provision it, et cetera.

<<Colby Synesael, Analyst, Cowen and Company>>

Would you – my last question, would you be surprised if an announcement wasn't made by the end of the third quarter?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

We will see.

<<Colby Synesael, Analyst, Cowen and Company>>

I liked the pause. So want to talk about the Microsoft 365 partnership.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes.

<<Colby Synesael, Analyst, Cowen and Company>>

So you did recently announce a partnership with Microsoft 365. Can you remind us what the partnership entails and what exactly you are offering to customers?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah, so that is part of our, what we call the digital office practice which basically provides all sorts of support for the administrators of our customers. So we don't provide end-customer support. We basically help the – and support the internal resources that have large deployments of either Exchange or Lync or Google Apps or Microsoft Office 365. So that is an interesting business. It's not super growing fast. It's not very, very significant for us from a business perspective, but it's a good growth business.

<<Colby Synesael, Analyst, Cowen and Company>>

And how long did it take from when you started talking with Microsoft about adding support for those products to making the formal announcement earlier this month?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Couple of months. These are – we already had hosted Exchange and then SharePoint. We bought a company, SharePoint 911, which was a bunch of SharePoint geeks that are kind of the most knowledgeable people in the industry on that platform. And so we are just evolving with their product set; we are evolving our support experience as well in terms of support of their product.

<<Colby Synesael, Analyst, Cowen and Company>>

Are there a lot more or similar partnership opportunities that are out there or is it a fairly limited number that you could really do and do well?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Well, we have deep relationships with Microsoft. We have deep relationships with Red Hat. We have deep relationships with VMware. So, again, the ones that are the most – the ones that have the most traction in the marketplace is the ones that we provide services around.

<<Colby Synesael, Analyst, Cowen and Company>>

And is there a point – and I guess this is a point of contention for investors, or at least debate when you think about the margin profile of the Company longer term, but – and all these different things you're trying to do. But is there a point where you are maxed out on the number of services or providers you can support or partner with and still maintain scale or maybe instead of scale, say, the margin profile that you have today maybe with some upward bias?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

This goes right into my previous point. If we start to basically go more and more into niche pieces that provide little bits of revenue opportunities that require a high degree of expertise, then you have much harder time to scale the Company, right? And so we have always been very disciplined in terms of picking the areas. Again, I repeat myself because it's all the same reason. The stuff that has a lot of traction and a lot of market opportunity is the stuff where we build resources and expertise around, and that allows us to effectively, almost like a mini business, create a service arm around a specific products set. Are there limitless opportunities? Only to the extent that there are limitless technologies that have traction, and that's not the case. So there's always going to be…

<<Colby Synesael, Analyst, Cowen and Company>>

To the extent it's a big market opportunity, and probably to some degree it has some connectivity to what you are already doing supporting Microsoft, supporting VMware, et cetera. We should assume that you would be able to do that?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes. I mean, Remember that part of our strategy evolution is the managed cloud umbrella, as we call it, and what that really means is that we are moving away from the undifferentiated, general-purpose technology as a service, which is deploy hardware and to use it for whatever you want. We are moving towards more integrated solutions that are basically providing almost like a SaaS outcome.

<<Colby Synesael, Analyst, Cowen and Company>>

Your support for Magento was a great example. I have one more area of topics which is M&A and buybacks and then I will open it up to see if there's any questions from the audience with eight minutes left. But on your first-quarter call and again at the JPMorgan conference last week, you hinted at the potential for M&A. Historically, the Company has made bolt-on acquisitions that either gave you a certain technology or a skill set and/or both. Can you walk us through how you are currently thinking about potential M&A opportunities? I think you mentioned tooling and monitoring and so forth in your comments. I'm just trying to understand if there's a shift that we should be expecting in terms of the types of acquisitions you might be doing going forward versus what you have done going backwards.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yes, there's certainly not – we certainly don't want display any sort of signal that we're going to change our strategy. We are an organic growth machine. We believe in that. We are looking at acquisitions all the time. We have a corp dev department like every other company that is sourcing deal opportunities. They are being evaluated and looked at and executed upon if we feel they are valuable. And so I don't think there's any deviation in terms of what we've done in the past.

<<Colby Synesael, Analyst, Cowen and Company>>

Okay, and how likely do you think it is that you make an acquisition this year, greater or less than 50%?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Somewhere between 0% to 100%.

<<Colby Synesael, Analyst, Cowen and Company>>

All right, I have to ask. And then I guess…

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Well you know that.

<<Colby Synesael, Analyst, Cowen and Company>>

And then with the stock down as much as it is since reporting, I'm curious how management is currently thinking about buybacks considering the state of the balance sheet, which is strong, and the availability that you still have left.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Yeah so as you all know, the original authorization of the Board and kind of the decision around thinking about what we do in terms of buyback and distribution of excess cash, et cetera, was a $500 million authorization. We entered into an ASR that was just recently completed for $200 million. There is $300 million left and the discussions are ongoing internally as to what our next steps are.

<<Colby Synesael, Analyst, Cowen and Company>>

Why wouldn't you do a – why wouldn't you use that extra $300 million? Because if you're only going to do bolt-on technology-oriented acquisitions – I will throw $100 million out there. I mean, relative to what your balance sheet is there's more than enough capacity to buy back the stock.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

There is, yeah.

<<Colby Synesael, Analyst, Cowen and Company>>

I'm not going to get any more information, am I?

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Not really.

<<Colby Synesael, Analyst, Cowen and Company>>

Okay, is there any questions from the audience?

Q&A

<Q>: [Question Inaudible]

<Q – Colby Synesael>: The question was around growth.

<A – Karl Pichler>: It's not that – it's basically the contribution, the dollar contribution has not really increased enough to keep the percentage growth rate up, so it's kind of a flattish dollar amount that we are continuing to sell. And as we said before, you basically need to find new ways to just keep the machine going and clock the same growth rates. And so one contributing factor is additional opportunities in the large space, in the larger space.

<Q – Colby Synesael>: And is the SMB business not growing at a faster absolute dollar amount a reflection of you guys just deemphasizing it as an area of focus, or do you feel like that market opportunity relative to the size of the Company is just – unless you are going to add a bunch more people or – I'm just trying to get a sense of why it's not continuing to grow at a faster dollar clip.

<A – Karl Pichler>: Well, I guess the smaller business has traditionally – I think, the smallest business area where we have very simple configurations that are a bunch of servers, one or two, is probably the area where you have the most competition from AWS and the like. Well, not the likes; really from them and so that's probably one big contributor.

<Q>: [Question Inaudible]

<Q – Colby Synesael>: Question is on long-term seasonality in the business that you would assume.

<A – Karl Pichler>: Yes, I mean, Look, if the – last year was a case where it all worked really well and this year we were a little bit slow out of the gate, so I think there is – this just goes back to the lumpiness comment that Taylor made. This goes back to the difficulties in kind of predicting the exact materialization of those deals, when they close and when they go online. At the end of the day, the customer determines when stuff goes online. They usually have larger procurement cycles.

They also give themselves a lot of time, so even if you sell a deal that closes today in the original world that deal went online a couple weeks later and now it's usually gives us two or three months time. And so that deployment cycle is longer, too. There is certainly – if you have a higher reliance on that, there is more volatility. But it can go both ways and last year it went the positive way. We really had it clicking.

<Q>: [Question Inaudible]

<A – Karl Pichler>: Yes, but if the pipe is full and you get to the point where everything is primed then it should flow continuously, which is what we seen last year.

<Q – Colby Synesael>: Any other questions from the audience?

<Q>: [Question Inaudible]

<A – Karl Pichler>: Yes, the – what I meant with a third, a third, a third is MRR. But assuming that everything materializes at the same pace, then, yes, that would be a fair conclusion.

<Q>: [Question Inaudible]

<A – Karl Pichler>: Well, some of them are 500,000 or 250,000 or – they are not all 100,000.

<<Colby Synesael, Analyst, Cowen and Company>>

Any other questions from the audience? We just have a minute left, so rather than jump into OpenStack I'm just going to conclude here. Thank you very much for your time.

<<Karl Pichler, Chief Financial Officer, Senior Vice President and Treasurer>>

Thank you.