



# Q4 2015 Earnings Slides

February 16, 2016



# Forward Looking Statements and Non-GAAP Financial Measures

## Forward-Looking Statements

This presentation contains information that may constitute “forward - looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. Generally, we have identified such forward-looking statements by using the words “outlook,” “forecast,” “guidance” and similar expressions or by using future dates in connection with any discussion of, among other things, operating performance, trends, events or developments that we expect or anticipate will occur in the future, statements relating to growth and statements expressing general views about future operating results. However, the absence of these words or similar expressions does not mean that a statement is not forward looking. Forward-looking statements are not historical facts, but instead represent only the Company’s beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside of the Company’s control. It is possible that the Company’s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. Management believes that these forward-looking statements are reasonable as of the time made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made. Our Company undertakes no obligation to publicly update or revise any forward looking statements, whether as a result of new information, future events or otherwise, except as required by law. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our Company's historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to the risks and uncertainties described in “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014, and those described from time to time in our future reports filed with the Securities and Exchange Commission.

## Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, including Adjusted EBITDA, Non-GAAP EPS, Adjusted Free Cash Flow, Return on Capital, and constant currency revenue growth. We believe that those metrics may be useful to investors as a measure of comparative operating performance between time periods and among companies, however these measures should be considered only as a supplement to, and not as a substitute for or as a superior measure to, financial measures prepared in accordance with GAAP, nor should they be considered in isolation or as an alternative to such GAAP measures. In addition, we note that other companies may calculate similar non-GAAP measures differently, limiting their usefulness as a comparative measure. This presentation contains reconciliations of the non-GAAP financial measures used to the most comparable GAAP financial measures.

# Summary Q4 and 2015 Financials

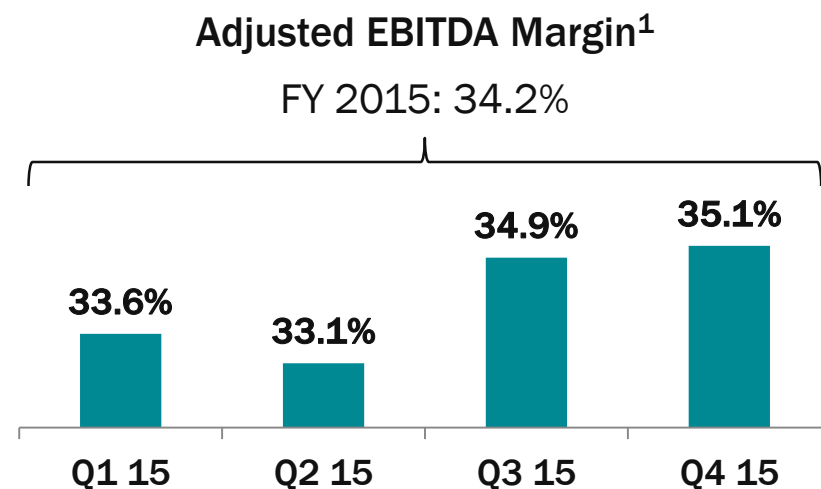
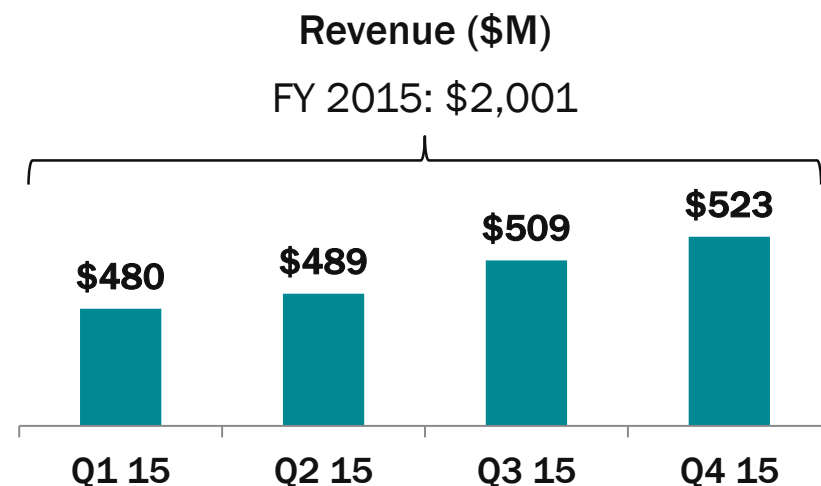
## Q4 2015

- Revenue of \$523M
  - Constant currency growth<sup>1</sup> of 3.2% QoQ
  - Constant currency growth<sup>1</sup> of 12.0% YoY
- Adjusted EBITDA margin<sup>1</sup> of 35.1%
- CapEx as % of revenue 18.5%

## 2015

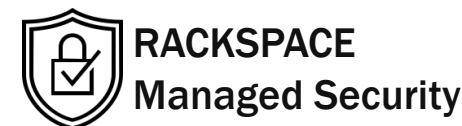
- Revenue of \$2,001M
  - Constant currency growth<sup>1</sup> of 13.7% YoY
- Adjusted EBITDA margin<sup>1</sup> of 34.2%
- CapEx as % of revenue 23.3%

1. Reference the Appendix for reconciliation of non-GAAP financial measures



## 2015 Achievements

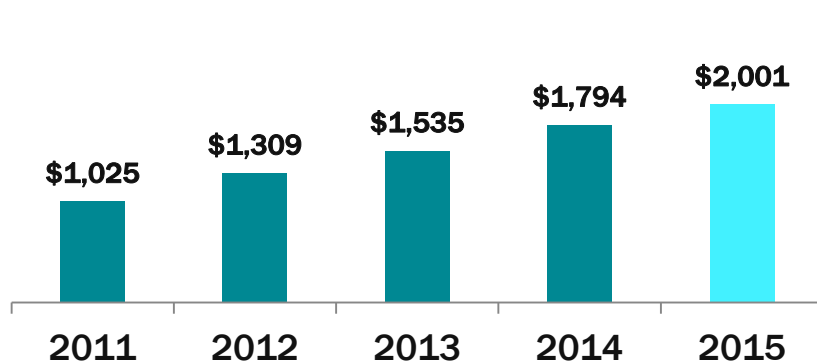
- Expansion into high-growth markets
  - Fanatical Support for AWS
  - Fanatical Support for Microsoft Cloud (Azure & Private Cloud, O365)
  - Rackspace Managed Security
- Lowered capital intensity<sup>1</sup> and increased Adjusted FCF<sup>2</sup>
- Authorized a \$1BN share buyback to return cash to shareholders
- Hired key senior sales and engineering talent



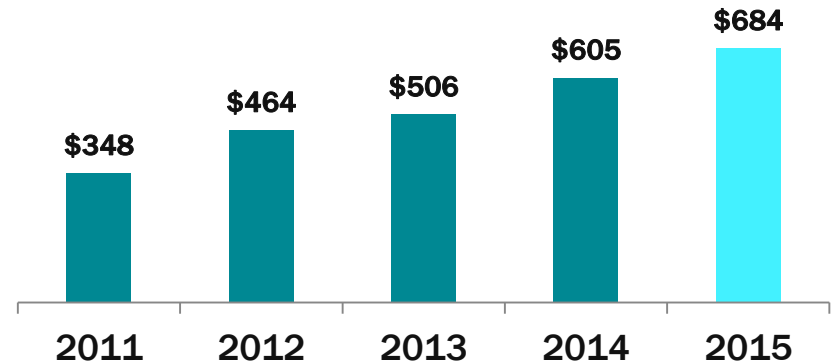
1. Defined as capital expenditure as percent of revenue
2. Reference the Appendix for reconciliation of non-GAAP financial measures

# Continued Growth, Consistent Profitability, Decreasing CapEx Intensity, and Increasing Adjusted FCF

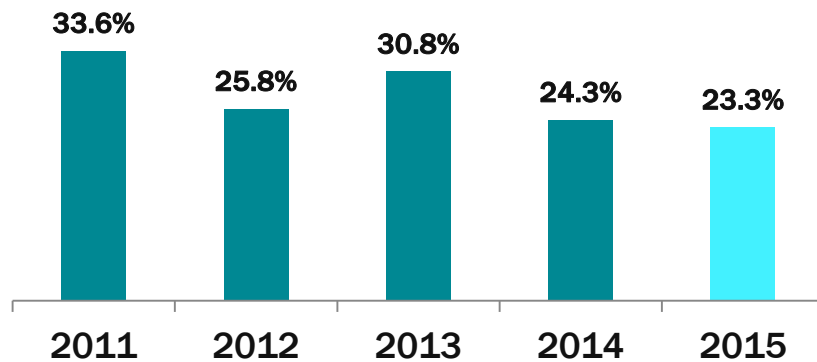
**Annual Revenue (\$M)**



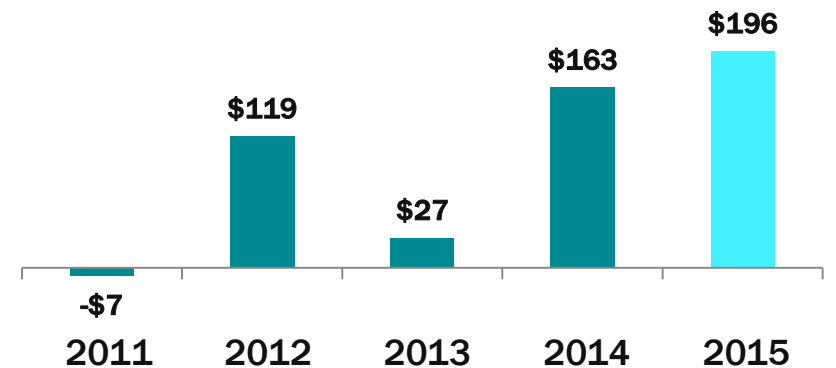
**Adjusted EBITDA<sup>1</sup> (\$M)**



**Capital Expenditures (% of Revenue)**



**Adjusted FCF<sup>1</sup> (\$M)**



1. Reference the Appendix for reconciliation of non-GAAP financial measures

# Multi-cloud Trend Favors Rackspace

- Customers are using multiple platforms
  - Rightscale<sup>1</sup>: *“Cloud users leverage 6 clouds on average.”*

# of Clouds Used <sup>1</sup>	Public Clouds All respondents	Private Clouds All respondents
Running applications	1.5	1.7
Experimenting	1.5	1.3
<b>Total</b>	<b>3.0</b>	<b>3.0</b>

- Customers are managed services buyers
  - They need help architecting, migrating, securing, and operating their apps
  - Rightscale<sup>1</sup>: *“Lack of resources/expertise is now the #1 cloud challenge (cited by 32 percent).”*

1. *“2016 State of the Cloud Report – Hybrid Cloud Adoption Ramps as Cloud Users and Cloud Providers Mature”* by RightScale. This work by RightScale is licensed under [Creative Common Licenses](#)

# Fanatical Support<sup>®</sup> for AWS off to a Great Start

- Signed 100 customers, including first estimated 6 figure MRR deal
- Majority of customers are new to Rackspace
- Large majority of installed base customers who have signed up are bringing us incremental workloads
- >70% of customers selected Aviator service level
- More than 1/3 of customers are International
- >230 technical certifications and 1,100 accreditations
- AWS certification as DevOps Competency Partner

## FEATURED CUSTOMER WIN

razorfish™



Note: All AWS data presented here is valid as of 1 Feb 2016.

# Looking Ahead

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- 2016 Key Focus

- Invest in new offerings in order to become the leading managed cloud service provider
- Optimize our more established offerings and increase cost efficiencies
- Increase Adjusted Free Cash Flow<sup>1</sup>
- Return cash to shareholders through a significant buyback

- 2016 Outlook

- Normalized revenue growth of 6%-10% YoY<sup>2</sup>
- Adjusted EBITDA margin<sup>1</sup> of 33% - 35%
- 20% - 22% annual capital expenditure as a percentage of revenue

1. Reference the Appendix for reconciliation of non-GAAP financial measures

2. Normalized for currency movements and Jungle Disk divestiture





# Financial and Operational Information

# Summary Financial Results

	Q4 2015		2015	
	ACTUALS	GUIDANCE <sup>1</sup>	ACTUALS	GUIDANCE <sup>2</sup>
<b>REVENUE</b>	\$523M	~\$521M	\$2,001M	~\$1,989M
YoY Growth	10.7%	N/A	11.5%	N/A
YoY Growth (Constant Currency) <sup>3</sup>	12.0%	N/A	13.7%	~13.0%
QoQ Growth	2.8%	N/A	N/A	N/A
QoQ Growth (Constant Currency) <sup>3</sup>	3.2%	2.0% - 3.0%	N/A	N/A
Adjusted EBITDA Margin <sup>3</sup>	35.1%	33.0% - 34.0%	34.2%	33.0% - 34.0%
Tax Rate	42.5%	N/A	34.8%	N/A
GAAP Diluted EPS	\$0.24	N/A	\$0.90	N/A
Non-GAAP Diluted EPS <sup>3</sup>	\$0.31	N/A	\$1.26	N/A
Capital Expenditure as % of Revenue	18.5%	N/A	23.3%	25.0%
Adjusted FCF <sup>3</sup>	\$85M	N/A	\$196M	N/A
Return on Assets <sup>3</sup>	6.8%	N/A	7.1%	N/A
Return On Capital <sup>3</sup>	12.8%	N/A	13.2%	N/A

1. Q4 15 quarterly guidance provided on 9 Nov. 2015
2. 2015 guidance provided on 10 Aug. 2015
3. Reference the Appendix for reconciliation of non-GAAP financial measures

# Bond Financing and Buyback

- **Bond Financing**
  - Issued \$500M 6.5% senior notes due 2024
  - Moody's and S&P ratings of Ba1 and BB+ rating
  - \$140M of net proceeds used to pay down credit facility drawn in Q3 15
- **Target Gross Leverage**
  - 0.75x LTM Adj. EBITDA<sup>1</sup> excluding off-balance sheet liabilities
- **Buyback**
  - \$500M commitment within 6-9 months of Q2 15 earnings call<sup>2</sup>
  - \$367M purchased as of 31 Dec. 2015 (through open market & 10b5-1 plan purchases)
  - Overall buyback program runs through mid-2017; up to \$500M additional capacity after current \$500M commitment

1. Reference the Appendix for reconciliation of non-GAAP financial measures

2. 10 Aug. 2015

## LEVERAGE CALCULATION

Credit facility	\$0M
Senior Notes	\$500M
Capital Leases	\$2M
LTM Adj. EBITDA <sup>1</sup> (Q4 15)	\$684M
Gross Leverage	0.73x

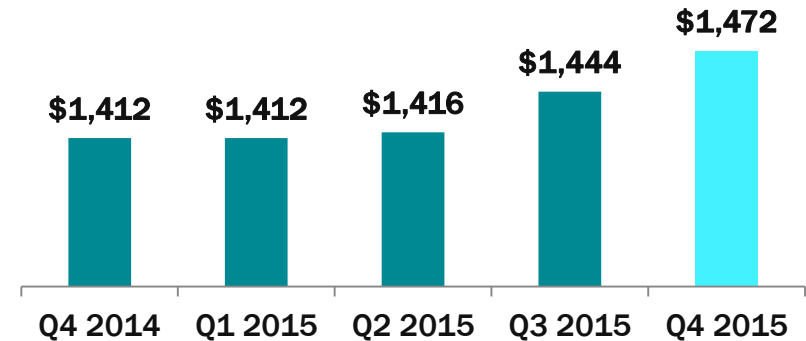
## Equity Raised/Returned in \$M Since 2008 IPO

Raised (IPO & Employee Stock Purchases)	\$342M
Returned to Shareholders	\$567M

# Initiatives to Increase Capital and Operational Efficiency

- Server decommissioning
  - ~2.4K servers decommissioned due to legacy public cloud migration to OpenStack public cloud and data center consolidation
  - Majority of servers used for >3 years
  - Expect continued migration and improved server utilization over 2016 and early 2017
- Data center consolidation
  - New London facility allows for consolidation of 2 legacy data centers (reduces MW Under Contract)
  - Data center consolidation and server decommissioning reduces MW utilized

**Average Revenue per Server**



	Q3 2015	Q4 2015
MW Under Contract	63.6	62.2
MW Utilized	32.7	32.2

## Guidance for Q1 16

	<b>Q1 2016</b>
<b>Revenue (GAAP, \$M)</b>	\$517 - \$521
<b>Normalized growth YoY (a)</b>	9.2% - 10.2%
<b>GAAP growth YoY</b>	7.6% - 8.5%
<b>Normalized growth QoQ (a)</b>	0.5% - 1.4%
<b>Adj. EBITDA Margin<sup>1</sup> (b)</b>	33% - 35%

### Notes:

- (a) Excludes estimated 170 bps of negative impact from currency movements and Jungle Disk divestiture
- (b) Excludes Jungle Disk-related Gain on Sale

1. Reference the Appendix for reconciliation of non-GAAP financial measures

## Guidance for 2016

	<b>2016</b>
Revenue (GAAP, \$M)	\$2,080 - \$2,160
Normalized growth YoY (a)	6% - 10%
GAAP growth YoY	4% - 8%
Adj. EBITDA Margin <sup>1</sup> (b)	33% - 35%
Effective tax rate	~35%
Capital expenditure as % of Revenue	20% - 22%

### Notes:

- (a) Excludes estimated 190 bps of negative impact from currency movements and Jungle Disk divestiture
- (b) Excludes Jungle Disk-related Gain on Sale

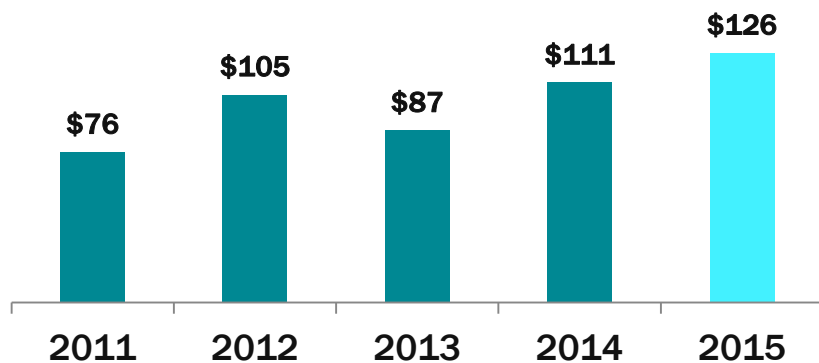
1. Reference the Appendix for reconciliation of non-GAAP financial measures



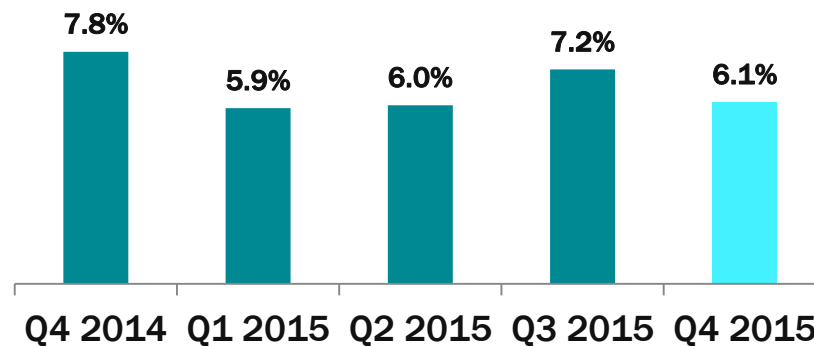
# Net Income

# Net Income and Net Income Margin

Net Income (\$M)



Net Income Margin







# Appendix (Reconciliation of Non-GAAP Financial Measures)

# Reconciliation of Non-GAAP Financial Measures

## Constant Currency Revenue Growth

(In millions)	Three Months Ended			Year Ended		
	Net Revenue	Foreign Currency Translation	Net Revenue in Constant Currency	Net Revenue	Foreign Currency Translation	Net Revenue in Constant Currency
December 31, 2015	\$522.8	\$6.3	\$529.1	\$2,001.3	\$39.1	\$2,040.4
December 31, 2014	<u>472.5</u>	---	<u>472.5</u>	<u>1,794.4</u>	---	<u>1,794.4</u>
Dollar Change	\$50.3		\$56.6	\$206.9		\$246.0
Percent Change	10.7 %		12.0 %	11.5 %		13.7 %
December 31, 2015	\$522.8	\$2.3	\$525.1			
September 30, 2015	<u>508.9</u>	---	<u>508.9</u>			
Dollar Change	\$13.9		\$16.2			
Percent Change	2.8 %		3.2 %			

# Reconciliation of Non-GAAP Financial Measures

## Adjusted EBITDA – Quarterly

(In millions)	Three Months Ended				
	December 31, 2014	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net Revenue	\$472.5	\$480.2	\$489.4	\$508.9	\$522.8
Net Income	\$37.0	\$28.4	\$29.2	\$36.5	\$32.1
Plus: Income taxes	12.3	13.6	14.0	16.1	23.7
Plus: Total other (income) expense	0.7	2.4	0.5	3.9	5.7
Plus: Depreciation and amortization	95.2	96.9	97.7	101.3	104.0
Plus: Share-based compensation expense	<u>20.2</u>	<u>20.0</u>	<u>20.4</u>	<u>19.6</u>	<u>18.1</u>
<b>Adjusted EBITDA</b>	<b>\$165.4</b>	<b>\$161.3</b>	<b>\$161.8</b>	<b>\$177.4</b>	<b>\$183.6</b>
<b>Adjusted EBITDA margin</b>	<b>35.0 %</b>	<b>33.6 %</b>	<b>33.1 %</b>	<b>34.9 %</b>	<b>35.1 %</b>

# Reconciliation of Non-GAAP Financial Measures

## Adjusted EBITDA – Annual

(In millions)	Year Ended December 31,				
	2011	2012	2013	2014	2015
Net Revenue	\$1,025.1	\$1,309.2	\$1,534.8	\$1,794.4	\$2,001.3
Net Income	\$76.4	\$105.4	\$86.7	\$110.6	\$126.2
Plus: Income taxes	40.0	62.6	44.0	49.0	67.4
Plus: Total other (income) expense	7.0	4.7	2.4	3.9	12.5
Plus: Depreciation and amortization	195.5	249.9	313.1	371.9	399.9
Plus: Share-based compensation expense	<u>28.8</u>	<u>41.5</u>	<u>59.6</u>	<u>70.0</u>	<u>78.1</u>
<b>Adjusted EBITDA</b>	<b>\$347.7</b>	<b>\$464.1</b>	<b>\$505.8</b>	<b>\$605.4</b>	<b>\$684.1</b>
Adjusted EBITDA margin	33.9 %	35.5 %	33.0 %	33.7 %	34.2 %

# Reconciliation of Non-GAAP Financial Measures

## Adjusted Free Cash Flow

	Three Months Ended	Year Ended December 31,				
(In millions)	December 31, 2015	2011	2012	2013	2014	2015
Adjusted EBITDA	\$183.6	\$347.7	\$464.1	\$505.8	\$605.4	\$684.1
Non-cash deferred rent	0.1	9.5	9.3	11.6	7.4	0.1
Total capital expenditures	(96.5)	(344.9)	(337.7)	(472.1)	(435.1)	(466.0)
Cash payments for interest, net of interest received	(1.9)	(5.5)	(4.8)	(3.2)	(1.7)	(4.0)
Cash payments for income taxes, net of refunds	<u>(0.8)</u>	<u>(14.2)</u>	<u>(11.9)</u>	<u>(14.9)</u>	<u>(13.5)</u>	<u>(17.8)</u>
Adjusted free cash flow	\$84.5	\$(7.4)	\$119.0	\$27.2	\$162.5	\$196.4

# Reconciliation of Non-GAAP Financial Measures

## Non-GAAP EPS

(In millions, except per share data)	Three Months Ended December 31, 2015	Year Ended December 31, 2015
Net Income	\$32.1	\$126.2
Adjustment:		
Share-based compensation expense	18.1	78.1
Income tax benefit (1)	(8.2)	(27.2)
Total share-based compensation expense, net of tax	9.9	50.9
Non-GAAP net income	\$42.0	\$177.1
Net income per share ("GAAP EPS")		
Basic	\$0.24	\$0.91
Diluted	\$0.24	\$0.90
Non-GAAP net income per share ("Non-GAAP EPS")		
Basic	\$0.32	\$1.27
Diluted	\$0.31	\$1.26
Weighted average number of shares outstanding		
Basic	133.3	139.0
Diluted	134.2	141.0

(1) Based on the GAAP effective tax rate for the period.

# Reconciliation of Non-GAAP Financial Measures

## Return on Capital

(In millions)	Three Months Ended December 31, 2015	Year Ended December 31, 2015
Income from operations	\$61.5	\$206.1
Adjustment for build-to-suit lease impact (1)	(2.3)	(3.8)
Income from operations, adjusted	\$59.2	\$202.3
Effective tax rate	42.5 %	34.8 %
Net operating profit after tax (NOPAT)	\$34.0	\$131.9
Net income	\$32.1	\$126.2
Total assets at period end (2)	\$2,014.2	\$2,014.2
Add: Unamortized debt issuance costs (3)	7.6	7.6
Less: Excess cash (4)	(422.0)	(422.0)
Less: Accounts payable and accrued expenses, accrued compensation and benefits, and income and other taxes payable	(205.6)	(205.6)
Less: Deferred revenue (current and non-current)	(31.2)	(31.2)
Less: Other non-current liabilities, deferred income taxes, deferred rent, and finance lease obligations for build-to-suit leases (2) (5)	(306.6)	(306.6)
Capital base (5)	\$1,056.4	\$1,056.4
Average total assets (2) (6)	\$1,881.7	\$1,778.3
Average capital base (5) (6)	\$1,060.7	\$1,002.9
Return on assets (2) (7)	6.8 %	7.1 %
Return on capital (5) (7)	12.8 %	13.2 %

(1) Reflects additional expense we would have expected to record if our build-to-suit lease arrangements had been deemed operating leases instead of finance lease obligations for build-to-suit leases. Calculated as the excess of estimated straight-line rent expense over actual depreciation expense for completed real estate projects under build-to-suit lease arrangements.

(2) In the fourth quarter of 2015, we elected to early adopt accounting guidance related to the balance sheet classification of deferred taxes. Prior period amounts have been revised to reflect the impact of this adoption.

(3) Amount recorded as a direct deduction from the carrying value of the long-term debt liability in the consolidated balance sheets.

(4) Defined as the amount of cash and cash equivalents that exceeds our operating cash requirements, which is calculated as three percent of our annualized net revenue for the three months prior to the period end.

(5) In the first quarter of 2015, we reclassified certain finance obligations associated with build-to-suit leases in the consolidated balance sheets. Prior period amounts have been revised to reflect the impact of this reclassification.

(6) For year ended December 31, 2015, average based on ending balances for the most recent five quarters.

(7) Metrics for the three months ended December 31, 2015 are annualized.