



# Q2 2016 Earnings Slides

August 8, 2016



# Forward Looking Statements, Non-GAAP Financial Measures, and Trademarks and Service Marks

## Forward-Looking Statements

We have made forward-looking statements in this presentation that are subject to risks and uncertainties. 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, are subject to the “safe harbor” created by those sections. The forward-looking statements in this presentation are based on our management’s beliefs and assumptions and on information currently available to our management. In some cases, you can identify forward-looking statements by terms such as “anticipates,” “aspires,” “believes,” “can,” “continue,” “could,” “estimates,” “expects,” “intends,” “may,” “plans,” “projects,” “seeks,” “should,” “will” or “would” or the negative of these terms and similar expressions intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, time frames or achievements to be materially different from any future results, performance, time frames or achievements expressed or implied by the forward-looking statements. We discuss many of these risks, uncertainties and other factors in greater detail under the heading “Risk Factors” in our Form 10-K/A for the year ended December 31, 2015 and may add additional risks in our future filings with the Securities and Exchange Commission, including in our Form 10-Q for the quarter ended June 30, 2016. We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to predict accurately or over which we have no control.

Given these risks, uncertainties and other factors, you should not place undue reliance on these forward-looking statements. Also, these forward-looking statements represent our estimates and assumptions only as of August 8, 2016 (the date on which we publicly presented this presentation). You should read this document completely along with our earnings press release and the Form 10-Q for the period ended June 30, 2016, which will be filed with the Securities and Exchange Commission no later than August 9, 2016, and with the understanding that our actual future results may be materially different from what we expect. We hereby qualify our forward-looking statements by these cautionary statements. Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

## Non-GAAP Financial Measures

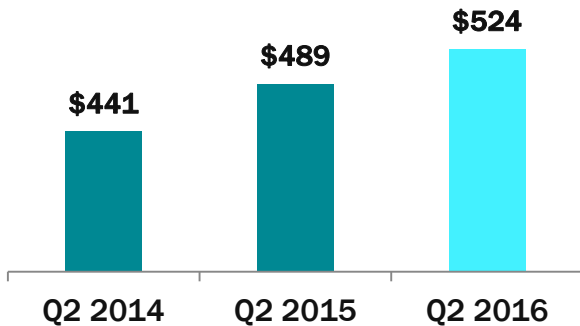
This presentation includes certain non-GAAP financial measures, including Adjusted EBITDA, Non-GAAP EPS, Free Cash Flow, Return on Capital, and revenue growth adjusted for foreign currency and asset divestiture. We believe that those metrics may be useful to investors as a measure of comparative operating 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 directly comparable GAAP financial measures. With respect to our third quarter of 2016 and full year 2016 expectations, reconciliations of revenue growth adjusted for foreign currency and asset divestiture to net revenue are included within this presentation. A reconciliation of Adjusted EBITDA margin to net income margin cannot be provided without unreasonable efforts due to high variability in net non-operating foreign currency exchange gains or losses and the inability to predict future acquisitions, dispositions, and certain other items that arise from time to time, the impact of which is excluded from Adjusted EBITDA margin. The Company is unable to address the probable significance of the unavailable information.

## Trademarks and Service Marks

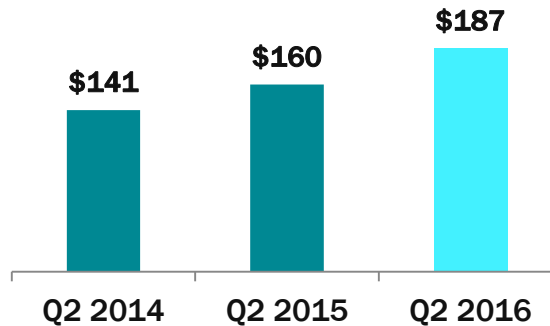
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# Continued Growth, Consistent Profitability, Decreasing CapEx Intensity, and Increasing Cash Generation

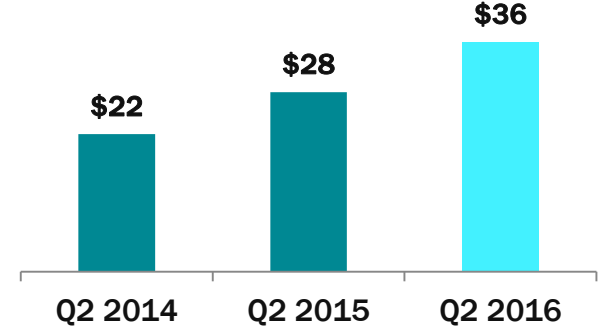
**Quarterly Revenue (\$M)**



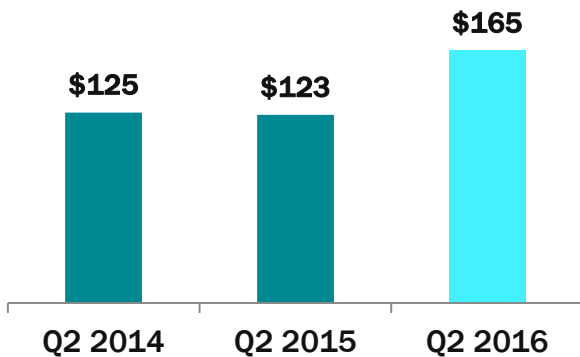
**Adjusted EBITDA<sup>1</sup> (\$M)**



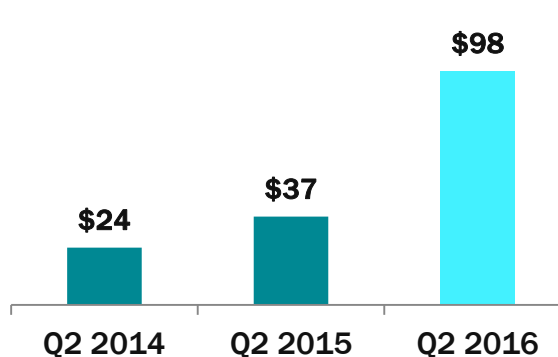
**Net Income (\$M)**



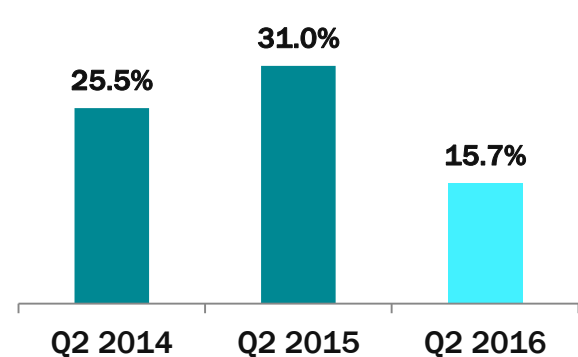
**Cash Flow from Ops (CFO) (\$M)**



**Free Cash Flow (FCF<sup>1</sup>) (\$M)**



**Capital Expenditures (% of Revenue)**



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

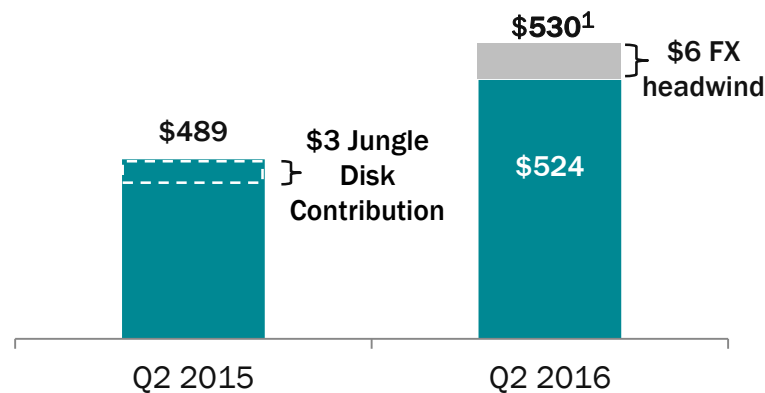
# Summary Q2 Financials

- GAAP Revenue of \$524M
  - Growth of 7.0% YoY
  - Normalized growth<sup>1</sup> of 8.9% YoY
- Net income margin of 6.8%
- Adjusted EBITDA margin<sup>2</sup> of 35.8%
- GAAP/Non-GAAP<sup>2</sup> EPS of \$0.28/\$0.38
  - 40.0%/31.0% higher YoY
- CapEx as % of revenue 15.7%
- CFO/Free Cash Flow<sup>2</sup> of \$165M/\$98M

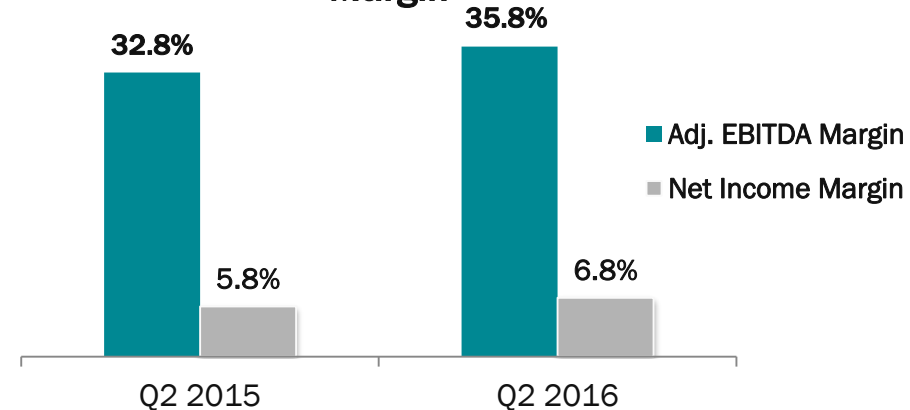
1. Normalized growth excludes the impact of asset divestiture and FX headwinds. Reference the Appendix for reconciliation of non-GAAP financial measures  
 2. Reference the Appendix for reconciliation of non-GAAP financial measures



Revenue (\$M)



Adjusted EBITDA and Net Income Margin<sup>2</sup>



# Sales and Marketing Update - Good progress, more work to be done

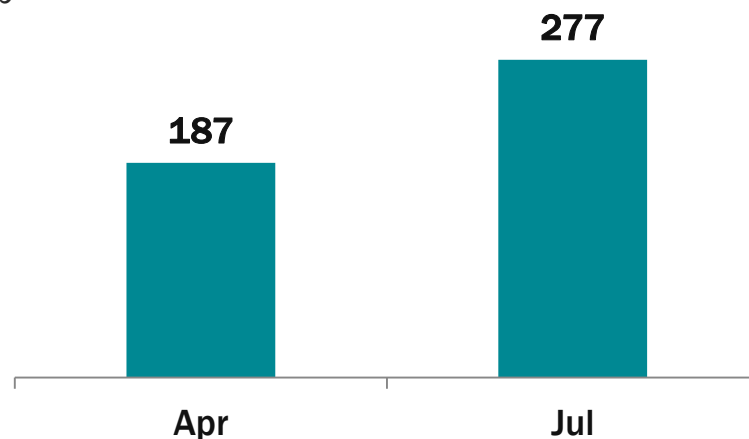
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- Improvements made in 1H 2016
  - Strengthened sales leadership ranks
  - Improved go-to market approach for Sales teams
  - Enhanced training and certification programs
  - ⇒ Pipeline has improved 2 quarters in a row
  - ⇒ New enterprise/mid-market logos signed in 1H 2016 almost doubled YoY
- Priorities for 2H 2016
  - Cross-sell high-growth offerings to current customers
  - Grow partner network and expand channel sales
  - Increase brand awareness and help customers understand our value add

# Fanatical Support<sup>®</sup> for AWS

- On track to be #1 AWS MSP
- Balanced mix of new and installed base customers
- Increased adoption in the installed base
  - Large majority of installed base customers who sign up bring incremental workloads
- >60% of customers on Aviator, highest service level
- ~50% of the customers are International
- >340 technical certifications, ~1,500 accreditations<sup>1</sup>
- Achieved DevOps competency certification and AWS Marketing & Commerce Competency<sup>1</sup>
- Extended support to AWS customers with PCI and HIPAA compliance needs<sup>1</sup>

AWS Customers Signed

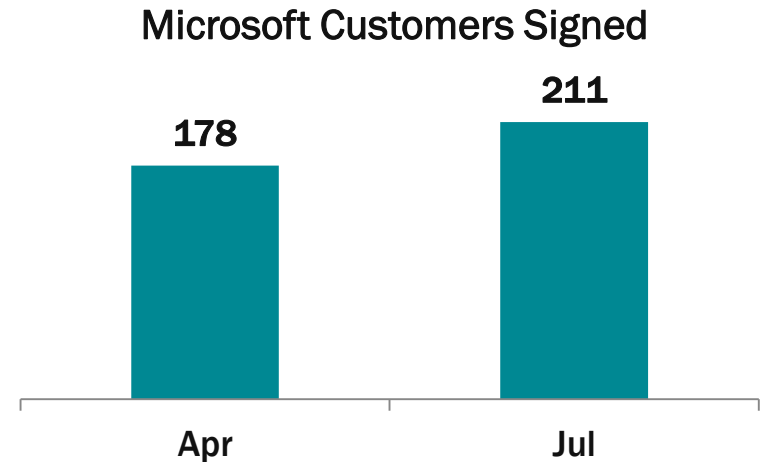


Note: AWS data presented here is valid as of July 31 2016 unless noted otherwise

1. DevOps competency achieved in April, Marketing & Commerce Competency achieved in July. PCI/HIPAA support became available starting in August.

# Microsoft Cloud

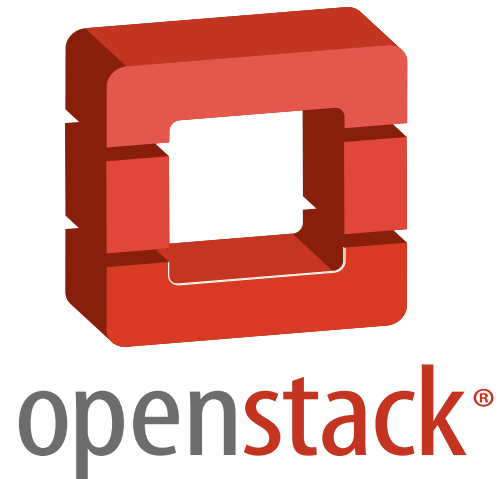
- Signed 211 Microsoft Cloud customers since launch
- Microsoft Private Cloud demand is driven by mid-market and large enterprises
- Increased traction for Microsoft Azure since offering refresh in May
- Broadened channel reach with Fanatical Support for Microsoft Azure and Office 365 Reseller and Referral Program
  - One of less than 10 hosting providers globally enabled for 2-Tier distribution across entire Microsoft suite



# OpenStack Private Cloud

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- Focus is on larger, multi-cloud customers
- Complex enterprise deployments are leading to longer time to deployment
- Major wins:
  - One of the world's largest industrial conglomerates
  - One of the world's largest auto manufacturers





## 2016 Key Focus Areas

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- Optimizing mature parts of our business and increasing cost savings
- Investing in high growth areas and expanding our position as the #1 managed cloud provider
- Increasing cash generation
  - Almost \$100M of FCF generated this quarter
- Completed \$500M share buyback commitment
  - Incremental buyback capacity of up to \$500M authorized till August 2017



# Financial and Operational Information

# Summary Financial Results

	Q2 2016		Q2 2015	Q1 2016
	ACTUALS	GUIDANCE <sup>1</sup>	ACTUALS	ACTUALS
<b>REVENUE</b>	\$524M	\$519M-\$524M	\$489M	\$518M
YoY Growth	7.0%	6%-7%	11.0%	7.9%
YoY Growth (Normalized) <sup>2</sup>	8.9%	8%-9%	13.7%	9.9%
QoQ Growth	1.1%	N/A	1.9%	-0.9%
QoQ Growth (Normalized) <sup>2</sup>	0.9%	0.2%-1.2%	1.8%	0.7%
Net Income Margin	6.8%	N/A	5.8%	9.4%
Adjusted EBITDA Margin <sup>2</sup>	35.8%	33.0% - 35.0%	32.8%	34.5%
GAAP Diluted EPS	\$0.28	N/A	\$0.20	\$0.37
Non-GAAP Diluted EPS <sup>2</sup>	\$0.38	N/A	\$0.29	\$0.34
Capital Expenditure as % of Revenue	15.7%	N/A	31.0%	15.2%
Cash Flow from Operations	\$165M	N/A	\$123M	\$156M
FCF <sup>2</sup>	\$98M	N/A	\$37M	\$89M
Return on Assets	7.1%	N/A	6.4%	9.7%
Return On Capital <sup>2</sup>	16.4%	N/A	11.8%	14.4%

1. Q2 16 guidance provided on 9 May, 2016

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

# Updated Free Cash Flow methodology<sup>1</sup>

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## Free Cash Flow (New methodology)

Net cash provided by operating activities

- Less: Cash purchases of property and equipment
- Plus: Excess tax benefits from share-based compensation arrangements

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**Free cash flow**

## Adjusted Free Cash Flow (Old methodology)

Adjusted EBITDA

- Plus: Non-cash deferred rent
- Less: Total capital expenditures
- Less: Cash payments for interest, net of interest received
- Less: Cash payments for income taxes, net of refunds

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**Adjusted free cash flow**

1. The company has stopped using “Adjusted Free Cash Flow” and is now using “Free Cash Flow” in order to be in line with updated SEC guidelines.

# Brexit Update

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## Current impact

- 20-25% of revenue exposed to UK/Europe
- Muted margin impact due to local cost structure
- Minimal impact in Q2 2016 due to late June timing of Brexit

## 2H16 impact

- Gartner forecasting significant slowdown in 2016 UK IT spending
- Seeing signs of elevated, but contained, churn
- YoY FX headwinds of ~250 bps/~\$50M affecting 2016 GAAP revenue growth

# Leverage and Buyback Update

- **Current Leverage**

- 0.69x Last twelve months (LTM) Adj. EBITDA<sup>1</sup> excluding off-balance sheet liabilities, close to target leverage of 0.75x<sup>2</sup>

- **Buyback**

- \$500M commitment completed (through open market & 10b5-1 plan purchases)
- Incremental capacity under our authorized share repurchase plan to buy back additional \$500M of shares by August 2017

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

2. 0.75x target leverage is equivalent to the ~1.5x target leverage including off balance sheet leases.

## LEVERAGE CALCULATION

Credit facility	\$0M
Senior Notes	\$500M
Capital Leases	\$1M
LTM Adj. EBITDA <sup>1</sup> (Q2 16)	\$724M
Gross Leverage	0.69x

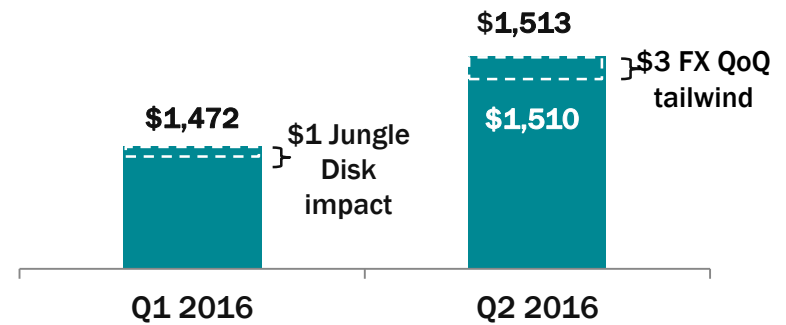
## Equity Raised/Returned in \$M Since 2008 IPO

Raised (IPO & Employee Stock Purchases)	\$345M
Returned to Shareholders through share repurchases	\$700M

# Server Consolidation Update

- **Continued server decommissioning**
  - ~2,900 servers decommissioned due to legacy public cloud migration to OpenStack public cloud
    - Majority of servers used for >3 years
    - Expect continued migration and improved server utilization over 2016 and early 2017
  - ~500 servers decommissioned as a part of Cloud Sites server consolidation
- **GAAP average revenue per server up 2.8% QoQ**
- **Normalized average revenue per server up 2.6% QoQ**

## Normalized Average Revenue per Server<sup>1</sup>



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

## Guidance for Q3 16

	Q3 16 Guidance
Revenue (GAAP, \$M)	\$510 - \$515
GAAP growth YoY	0.2% - 1.2%
Normalized growth YoY (a)	4.9% - 5.9%
GAAP growth QoQ	(2.6)% - (1.6)%
Normalized growth QoQ (a)	(0.2)% - 0.7%
Adj. EBITDA Margin	33% - 35%

### Notes:

- (a) Excludes ~470/240 bps of negative YoY/QoQ impact from currency movements (370 bps YoY/180 bps QoQ) and asset divestiture (100 bps YoY/60 bps QoQ)



## Guidance for 2016

	2016 Guidance
Revenue (GAAP, \$M)	\$2,060 - \$2,080
GAAP growth YoY	3% - 4%
Normalized growth YoY (a)	6.5% - 7.5%
Adj. EBITDA Margin (b)	33% - 35%
Effective tax rate	35%
Capital expenditure as % of Revenue	16% - 18%

### Notes:

- (a) Excludes ~350 bps (\$70M) of negative impact from currency movements (~250 bps, ~\$50M) and asset divestiture (~100 bps, ~\$20M)
- (b) Excludes future asset divestiture-related gain and one-time impacts



# Appendix

(Reconciliation of Non-GAAP Financial Measures)

# Reconciliation of Non-GAAP Financial Measures

## Revenue Growth Adjusted for FX and Asset Divestiture

(In millions)	Net Revenue	Foreign Currency Translation	Asset Divestiture Adjustment	Revenue Growth Adjusted for Foreign Currency and Asset Divestiture
June 30, 2016	\$523.6	\$6.1	\$ -	\$529.7
June 30, 2015	<u>489.4</u>	-	(3.0)	<u>486.4</u>
Dollar Change	\$34.2			\$43.3
Percent Change	7.0 %			8.9 %
June 30, 2016	\$523.6	\$(1.1)	\$ -	\$522.5
March 31, 2016	<u>518.1</u>	-	(0.2)	<u>517.9</u>
Dollar Change	5.5			4.6
Percent Change	1.1 %			0.9 %
June 30, 2015	\$489.4	\$12.1	-	\$501.5
June 30, 2014	<u>441.2</u>	-	-	<u>441.2</u>
Dollar Change	48.2			60.3
Percent Change	11.0 %			13.7 %

# Reconciliation of Non-GAAP Financial Measures

## Revenue Growth Adjusted for FX and Asset Divestiture

(In millions)	Net Revenue	Foreign Currency Translation	Asset Divestiture Adjustment	Revenue Growth Adjusted for Foreign Currency and Asset Divestiture
June 30, 2015	\$489.4	\$(0.7)	-	\$488.7
March 31, 2015	<u>480.2</u>	-	-	<u>480.2</u>
Dollar Change	\$9.2			\$8.5
Percent Change	1.9 %			1.8 %
March 31, 2016	\$518.1	\$6.4	\$(0.2)	\$524.3
March 31, 2015	<u>480.2</u>	-	(3.0)	<u>477.2</u>
Dollar Change	37.9			47.1
Percent Change	7.9 %			9.9 %
March 31, 2016	\$518.1	\$5.7	\$(0.2)	\$523.6
December 31, 2015	<u>522.8</u>	-	(2.9)	<u>519.9</u>
Dollar Change	(4.7)			3.7
Percent Change	(0.9) %			0.7 %

# Reconciliation of Non-GAAP Financial Measures

## Adjusted EBITDA – Quarterly

### Three Months Ended

(In millions)	June 30, 2014	June 30, 2015	March 31, 2016	June 30, 2016
Net Income	\$21.7	\$28.3	\$48.8	\$35.8
Plus: Income taxes	10.5	13.4	23.0	18.6
Plus: Total other (income) expense	0.4	0.5	9.4	9.9
Plus: Depreciation and amortization	90.6	97.7	104.0	104.6
Plus: Share-based compensation expense	17.3	20.4	17.8	18.4
Less: Gain on sale	-	-	(24.5)	-
<b>Adjusted EBITDA</b>	<b>\$140.5</b>	<b>\$160.3</b>	<b>\$178.5</b>	<b>\$187.3</b>
Net Income Margin	4.9 %	5.8 %	9.4 %	6.8 %
Adjusted EBITDA Margin	31.8 %	32.8 %	34.5 %	35.8 %

# Reconciliation of Non-GAAP Financial Measures

## Adjusted EBITDA LTM

### Three Months Ended

(In millions)	September 30, 2015	December 31, 2015	March 31, 2016	June 30, 2016	LTM
Net Income	\$35.5	\$31.1	\$48.8	\$35.8	\$151.2
Plus: Income taxes	15.6	23.1	23.0	18.6	80.3
Plus: Total other (income) expense	3.9	5.7	9.4	9.9	28.9
Plus: Depreciation and amortization	101.3	104.0	104.0	104.6	413.9
Plus: Share-based compensation expense	19.6	18.1	17.8	18.4	73.9
Less: Gain on sale	-	-	(24.5)	-	(24.5)
Adjusted EBITDA	\$175.9	\$182.0	\$178.5	\$187.3	\$723.7

# Reconciliation of Non-GAAP Financial Measures

## Free Cash Flow

### Three Months Ended

(In millions)	June 30, 2014	June 30, 2015	March 31, 2016	June 30, 2016
Net cash provided by operating activities	\$124.5	\$122.9	\$156.2	\$164.9
Less: Cash purchases of property and equipment	(114.0)	(104.7)	(82.9)	(76.7)
Plus: Excess tax benefits from share-based compensation arrangements	<u>13.2</u>	<u>18.6</u>	<u>15.8</u>	<u>10.2</u>
Free cash flow	\$23.7	\$36.8	\$89.1	\$98.4

# Reconciliation of Non-GAAP Financial Measures

## Non-GAAP EPS

### Three Months Ended

(In millions, except per share data)	June 30, 2015	March 31, 2016	June 30, 2016
<b>Adjustment:</b>			
Share-based compensation expense	20.4	17.8	18.4
Gain on sale	-	(24.5)	-
<b>Total Adjustments</b>	20.4	(6.7)	18.4
Income tax expense (benefit) (1)	(6.6)	2.1	(6.3)
<b>Total adjustments, net of tax</b>	<u>13.8</u>	<u>(4.6)</u>	<u>12.1</u>
<b>Non-GAAP net income</b>	\$42.1	\$44.2	\$47.9
<b>Net income per share ("GAAP EPS")</b>			
Basic	\$0.20	\$0.37	\$0.28
Diluted	\$0.20	\$0.37	\$0.28
<b>Non-GAAP net income per share ("Non-GAAP EPS")</b>			
Basic	\$0.30	\$0.34	\$0.38
Diluted	\$0.29	\$0.34	\$0.38
<b>Weighted average number of shares outstanding</b>			
Basic	142.4	130.3	126.1
Diluted	144.5	131.0	127.0



# Reconciliation of Non-GAAP Financial Measures

## Return on Capital

### Three Months Ended

(In millions)	June 30, 2015	March 31, 2016	June 30, 2016
Income from operations	\$42.2	\$81.2	\$64.3
Adjustment for gain on sale	-	(24.5)	-
Adjustment for build-to-suit lease impact (1)	(0.4)	(2.2)	(2.6)
Income from operations, adjusted	\$41.8	\$54.5	\$61.7
Effective tax rate	32.2 %	32.1 %	34.0 %
Net operating profit after tax (NOPAT)	\$28.4	\$37.0	\$40.7
Total assets at period end	\$1,826.6	\$2,025.4	\$1,996.8
Add: Unamortized debt issuance costs (2)	-	7.4	7.2
Less: Excess cash (3)	(258.4)	(472.0)	(481.5)
Less: Accounts payable and accrued expenses, accrued compensation and benefits, and income and other taxes payable	(256.4)	(213.0)	(219.1)
Less: Deferred revenue (current and non-current)	(29.7)	(29.0)	(30.2)
Less: Other non-current liabilities, deferred income taxes, deferred rent, and finance lease obligations for build-to-suit leases	(299.7)	(313.6)	(296.4)
Capital base	\$982.4	\$1,005.2	\$976.8
Average total assets	\$1,756.0	\$2,019.8	\$2,011.1
Average capital base	\$961.2	\$1,026.6	\$991.0
Return on assets (annualized)	6.4 %	9.7 %	7.1 %
Return on capital (annualized)	11.8 %	14.4 %	16.4 %

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

(3) 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.

# Reconciliation of Non-GAAP Financial Measures

## Average Revenue per Server

	<u>Three Months Ended</u>	
(In millions, except server count and avg revenue per server)	March 31, 2016	June 30, 2016
Net Revenue	\$518.1	\$523.6
Foreign currency translation	-	(1.1)
Asset Divestiture adjustment	(0.2)	=
Net Revenue in Constant Currency, adjusted for Asset Divestiture	\$517.9	\$522.5
Beginning of quarter server count	118,177	116,507
End of quarter server count	<u>116,507</u>	<u>114,231</u>
Average server count	117,342	115,369
Average monthly net revenue per average server	\$1,472	\$1,513
Average monthly net revenue in Constant Currency, adjusted for Asset Divestiture, per average server	\$1,471	\$1,510

# Reconciliation of Non-GAAP Financial Measures

## Revenue Growth Expectations Adjusted for FX and Asset Divestitures

(In millions)	Dollars (in millions)	Revenue Growth (YoY)
<b>Q3 2015 Actual</b>		
Net Revenue	\$509	
<b>Q3 2016 Guidance</b>		
Net Revenue	\$510 - \$515	0.2% - 1.2%
Plus: Negative impact of currency movements	~\$19	~3.7%
Plus: Negative impact of divestitures	~\$5	~1.0%
Revenue adjusted for foreign currency and asset divestitures	\$534 - \$539	4.9% - 5.9%

(In millions)	Dollars (in millions)	Revenue Growth (QoQ)
<b>Q2 2016 Actual</b>		
Net Revenue	\$524	
<b>Q3 2016 Guidance</b>		
Net Revenue	\$510 - \$515	(2.6)% - (1.6)%
Plus: Negative impact of currency movements	~\$9	~1.8%
Plus: Negative impact of divestitures	~\$3	~0.60%
Revenue adjusted for foreign currency and asset divestitures	\$522 - \$527	(0.2)% - 0.7%

# Reconciliation of Non-GAAP Financial Measures

## Revenue Growth Expectations Adjusted for FX and Asset Divestitures

(In millions)	Dollars (in millions)	Revenue Growth (YoY)
<b>2015 Actual</b>		
Net Revenue	\$2,001	
<b>2016 Guidance</b>		
Net Revenue	\$2,060 - \$2,080	3.0% - 4.0%
Plus: Negative impact of currency movements	~\$50	~2.5%
Plus: Negative impact of divestitures	~\$20	~1.0%
Revenue adjusted for foreign currency and asset divestitures	\$2,130 - \$2,150	6.5% - 7.5%