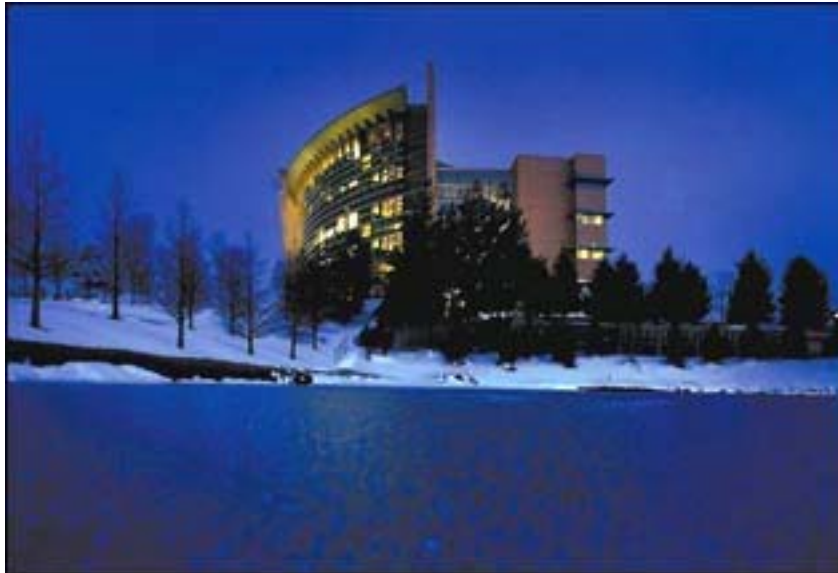


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Savvis Soars

By Rachel Melcer
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The number of lit offices at Savvis Inc. headquarters reflects the company's health. A few years ago, the building had an entire empty floor. Now, it is fully occupied.
(Kevin Manning/P-D)

Phil Koen avoided the limelight in his first year as chief executive of Savvis Inc. He was raised to act first and speak second, and then only if there was something good to say.

These days, Koen is gushing.

"This is a company that's on the go. The pace has just picked up," he said in a recent interview at Savvis' headquarters in Town and Country.

"People here are really energized and excited. It feels like we're going in the right direction."

That direction is up, whether the discussion is about Savvis' share price, its sales or its status among Wall Street analysts.

The company, once among a pack of information-technology infrastructure providers that sought to cash in on the dot-com boom, has survived the bust to become a leader, analysts say.

"Growth prospects appear robust for IT infrastructure outsourcing, and Savvis is uniquely positioned to capture market share," Morgan Stanley analyst Vance Edelson wrote in a research note on Jan. 30. "Savvis is the only company providing fully managed end-to-end global service, which represents substantial revenue-growth and customer-retention opportunities."

In other words, Savvis has what it takes to assume all of a company's Internet technology.

Savvis' hosting business — which accounted for about half of its \$764 million in sales last year — provides everything a customer needs to run internal business applications. It provides data storage, networks and operations in centers with adequate cooling, redundant electrical systems, security and sufficiently wide "pipes" to carry all of the information.

A glut of these data centers lasted from the dot-com bust of 2000 until about 18 months ago. Many were sold off in Bankruptcy Court. Savvis acquired 15 of those centers in 2004 from Cable & Wireless America as part of a \$155 million purchase that included CWA's Internet network, services business and client list.

"In retrospect, that was a brilliant move that wasn't fully appreciated at the time," Koen said. "It was a hugely transformative event for the company."

These days, space in data centers is scarce as an increasing number of companies outsource their information-technology services. These companies don't want to pay for storage and networks, or a full-time technical staff, when having reliable computing has become a cost of doing business rather than something that provides a competitive advantage.

New media markets — such as Internet music, video downloads and the online streaming of television shows and movies — also are driving unprecedented demand for IT infrastructure. Also, companies with security and disaster-recovery concerns need greater and more diverse data-storage options.

As a result, Savvis and its competitors are able to raise prices on hosting. Savvis said it will do so as existing contracts expire, generating an additional \$25 to \$30 million in revenue this year compared to 2006.

Secure network services

The hosting upside doesn't end there. Savvis also sells managed IP VPN service, which adds to basic hosting the ability to securely transport video and data from the storage center to a company's scattered locations and customers.

This managed-network service sells for much more than simple data hosting; about \$1,000 compared to \$50 per square foot, Koen said. If Savvis can convert 2 percent of its data-center space to managed services, it will gain about \$185 million in additional revenue, he told analysts in a recent conference call.

A final step up in Savvis' hosting options is a utility platform, which lets customers order up any combination of services and amount of storage it needs at a particular point in time.

This allows Savvis to get the most out of its equipment by flexibly allocating resources and squeezing a greater number of customers into the same amount of space. With utility sales, Savvis can earn about \$2,000 per square foot, Koen said.

"Data centers have gone from being the dust bin to gold," he said. "We're surfing an incredible wave" of demand.

Building data centers

As a result, Savvis decided to spend \$200 million this year on four new data centers, adding a total of about 180,000 square feet of space in Atlanta, New York, Washington and Santa Clara, Calif., in Silicon Valley.

They are set to open in the fourth quarter and will generate about \$50 million in revenue next year, the company said.

The beauty of the expansion, Koen said, is that it is largely being funded with about \$130 million in proceeds from the December sale of a content network that Savvis acquired among the assets of Cable & Wireless America.

As part of its purchase of CWA, Savvis got data centers and a global footprint that would cost "multi-billion dollars" to replicate today, plus a network that provided cash to grow, he said.

Savvis is being rewarded on Wall Street, where its market value is \$2.2 billion, compared to slightly more than \$150 million a year ago.

Eight financial analysts watch the company — with six saying its shares are worth buying, and two suggesting they should be held — when none was interested a couple of years ago.

Behind-the-scenes services

Savvis can be tough for a layperson to understand, Koen acknowledged.

It sells products and services that are behind-the-scenes to most people, and typically are described in technical terms. The company's financial picture, too, can appear murky.

While Savvis' revenue shows steady increases over the last four years, its bottom line is comprised of negative numbers. In 2006, Savvis reported a net loss of \$44 million, an improvement over a \$69.1 million net loss in the previous year.

When asked if the company will turn a profit, Koen said, "It will happen." But he declined to say when. "Not any one number tells the story of any company. You've got to look at it in its entirety," he said.

Savvis points to improvements in "adjusted EBITDA" — or income from operations before depreciation, amortization, accretion, net restructuring charges, integration costs, gains or losses on sales of assets, and non-cash equity-based compensation.

That figure was \$122.7 million in 2006, up 55 percent from 2005, and Savvis projects it will be in the range of \$145 million to \$155 million this year.

In the St. Louis area, Savvis has 758 workers and is growing.

"We're bursting at the seams" of a headquarters building that had an entire vacant floor a few years ago, Koen said. Savvis has 2,250 employees worldwide.

Koen is happy to say Savvis is doing well, and he believes in its strategy for the future. But he said he learned from the Silicon Valley dot-com experience that "only the paranoid survive. This is just a moment in time ... and we need to continue to execute."



Jarrett Baker | Post-Dispatch

PHILIP J. KOEN

Age: 55

Title: Chief Executive of Savvis Inc.

Previous Job: President and chief operating officer, Equinix Inc.

Education: Master's degree in business administration, University of Virginia; bachelor's from Claremont McKenna College

Home: Clayton

Family: Wife, Peggy; three grown children

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