Infinity realizes growth by diversifying its datacenter floor

Analyst: Penny Jones

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UK wholesale operator Infinity SDC, which in the last three years held a large portion of London's spare datacenter capacity, has seen a significant rise in demand. This month, it announced 63% growth in its 2013/2014 profit, despite outlaying capital for two large facilities in Stratford and Romford, currently under construction. What is interesting is that it attributes much of this growth to a new retail colocation business, targeting the larger end of the market.

Infinity's revenue grew 29% in 2014, from £16.7m ($25m) to £21.7m. Adjusted EBITDA was up from £4.8m to £7.8m. This growth has been due to a tripling of contract customers – many of which have taken new bundles for smaller allocations of power and shorter-term contracts than its traditional wholesale customer base.

Retail colocation is more volumetric and run-rate driven, which makes the Infinity story very different to 2013, when a majority of customers came from large deals. These organizations also add a new diversity to Infinity's customer base, with contracts being signed with cloud and managed service providers, universities and global finance companies.

A new blueprint

Infinity opened the first phase of its newest 9,200-square-meter facility in Slough in 2013. This was an important development because it saw Infinity adopt a new design blueprint to accommodate a modular process for building out space. This means it can now cater to customers wanting mixed densities and various IT needs. Infinity is currently building out Phase 2 of this facility.

The provider realized that while wholesale deals offer steady ongoing revenue, retail colocation deals offer strong quarterly returns. But Infinity is largely sticking to the larger end of this market. And customers taking large colo deals for space tend to be knowledgeable about their requirements. Many see colo as a stop-off point on their journey to the cloud, but still want longer contract terms.

The 451 Take

Infinity's aggressive build plan has been coupled with some very large customer wins. But it seems retail colocation will be what propels it closer to the tipping point of adoption. The benefits of retail go beyond quarterly revenue increases. It also allows Infinity to market facilities based on vertical industry ecosystems and horizontal computational needs. This bodes well for external investors that like to see levels of diversity in space and a clear direction in the sales pipeline, and it helps clarify Infinity's market message. Infinity will need to be careful with its forecasting, however, since flexible, shorter contracts can affect long-term forecasting. That said, as ecosystems develop in each datacenter and across Infinity's portfolio, we expect to see their sticky nature provide new levels of insight into cloud adoption and growth trends.

Not on main street

Infinity signs few retail colo deals at the smaller end of the market. This makes it different than many traditional retail players. In marketing its new services, the company says it is very attuned to bundling different offerings, with a focus on building ecosystems for growth – incorporating cloud service providers, Internet exchanges and application providers. It is also forming new partnerships to attract new business.

Jisc, a UK-based organization that champions the use of digital technologies in education and research is one example of this new partnership model. After an extensive procurement process, Infinity signed a framework agreement with Jisc, creating a collaborative datacenter where universities and research institutions can share large swathes of data. Jisc and its initial six university and research institute partners are currently being installed at Infinity's Slough datacenter.

This is the first large-scale example of HPC environments being placed in an outsourced colocation facility. The framework agreement comes with its own price book, product list and flexible offerings for colocation with 40 different retail options, ranging from HPC platforms to university and back-office processing. The key focus is on connectivity, convenience and focused SLAs.

Competition

Infinity claims to have 50MW capacity across five datacenters, and says more is coming online in 2015 and 2016. This is in comparison to many of its competitors, which claim much higher occupancy rates. Despite seeming like a tough sell, this can work in its favor with customers that want the ability to scale in high-quality facilities. Many of these deals, according to Infinity, are won on the ability to provide customers with a journey from enterprise operations to colocation, wholesale and cloud.

The company has traditionally competed against wholesale players such as Global Switch and Digital Realty, but with its new colocation bundles at the higher end, it could find itself coming up against IO, a newcomer to the market that is expected to open its facility in March, as well as other providers in the retail colocation market in Slough such as Equinix. Pricing in Slough is competitive and not cheap, and is aimed at the type of colocation customers Infinity is trying to capture. That said, Infinity is providing value around its space, and this will appeal to many prospective customers.

SWOT Analysis

Strengths

Space, space and more space. Infinity has invested heavily in high-quality London infrastructure, and it has plenty of space to fill, which means opportunity for more wholesale and retail colo deals.

Weaknesses

Space to fill can also be a weakness. In the past it has seemed slow to move – but the company says it is now turning this around with its colocation business.

Opportunities

If Infinity can provide the right bundles – with the right services and price, and high quality – it could attract enterprise users still unsure about their move to the cloud.

Threats

Many other providers are also looking to diversify. Just this week, Equinix purchased Nimbo, which provides consulting services around cloud migration. Not only will Infinity want to ensure it remains noncompetitive with customers, it will also need to keep up with its competition in key locations such as Slough.