TelecityGroup

On Cloud
NINE

One of the leading providers of colocation data centres and services in Europe, TelecityGroup has built its business on high-level customer service.

Images courtesy of TelecityGroup

With data centres in key cities across Europe, as well as cloud, hosting, IT infrastructure, data security, and network services, Telecity is equipped to enable its customers' digital strategies. With the company's customers including big businesses such as Microsoft, Spotify, Amazon, Xing, News UK, and Groupon, providing excellent service and operational delivery are critical. *The CEO Magazine* spoke to Executive Chairman John Hughes about how Telecity has reached where it is now, the values of the company, and what the future holds, including a recommended offer to be acquired by global player Equinix.

The CEO Magazine: How has Telecity grown and expanded over its existence?

John: I think it's probably worth giving you a little bit of background history of the industry. The European data-centre business got started really in the late 90s with a series of businesses that were very early

private-equity backed at that time. A number of them listed in the 1998 to 2000 time frame and, frankly, almost every one of them crashed and burned. The reason was that they were just too early. The market hadn't developed, and the model that the early players played out was basically 'build capacity and the customers will come'. The unfortunate reality is they built the capacity and the customers took quite a bit longer to come.

There were two businesses, one originally called Telecity and one called Redbus Interhouse, and they were merged by their private-equity owners. A lot of the excess capacity and a lot of the excess spend was flushed out of the system. From the mid 2000s, you started to see a very robust and vital demand for high-quality, highly connected data-centre capacity. That's really the genesis of the journey we've been on for 10 years. We then relisted the business on the main market in London in late 2007, one of the last IPOs that got completed at that time before the global financial crisis.

To give you a sense of scale of what the business was then, it was very UK dominated and was doing a little less than £100 million in turnover. Compare that to 2014, when revenue was more than three times that amount. We now have 39 data centres across 12 cities in 11 countries. The business has grown phenomenally since IPO on the back of, amongst other things, a real increase in data-centre demand driven by the growth in internet traffic in its broader sense. While it's still a relatively new market, it is one that's become a lot more mature and a lot better understood and, I think, a lot more appreciated by customers as being an important part of their business. Telecity's data centres are now part of the critical infrastructure of the digital economy.

Is it fair to say that the UK is the leader in this market?

The way to think about it is certainly the UK has been and continues to be a very important market for us and for our competitors. As a proxy for all of this, if you look at where the most important internet exchanges in ›

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Europe are—and the three most important internet exchanges in Europe are the London exchange, the Amsterdam exchange, and the Frankfurt exchange—that's where we have our hubs. It's interesting to debate which comes first and ask whether the internet exchange growth has been fed by the growth we've all made in capacity, or whether our capacity has been fed by the growth in internet exchanges. The answer is that it's a symbiotic relationship, so it's hard to separate them. But, certainly, yes, London is a very important part of the global market.

What was your professional background prior to coming to Telecity, and has your background shaped your leadership style?

I've been fortunate to work in a number of large, successful global businesses, and I think over time the one thing to be aware of is that your success as a leader is in direct proportion to the quality of the team around you and the leadership and motivation that you can provide

"Over the past 10 years, we have built a strong relationship with Telecity enabling our companies to grow together. Telecity data centres rely on Schneider Electric's energy efficient solutions to power cool and optimise operations for their customers. As the global leader in data centre infrastructure services, Schneider Electric enables Telecity to meet its goals for reliable, predictable, and sustainable service delivery." - Tanuja Randery, President, UK and Ireland, Schneider Electric

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>
> *- John Hughes*

that team with. The thing that I've done over a lot of years is focus on building great teams. Before this role, the last really large full-time executive role I had was spending nearly five years in Paris with Thales running the aerospace and IT and services parts of their business, a business that had a team of 26,000 people across the globe.

When you're running a business like that, you need to have great people. You can't succeed on your own, and you can only succeed with a great team around you. I think that's been a learning experience. The other things that have been important are that I spent a lot of time in the IT industry and then a substantial amount of time in telecoms, so I have a good understanding of what's driving the business that we're in, as it's a combination of all of these things. Fortunately, I'd seen a number of industries that were at the heart of what was driving the demand for data-centre capacity, so I'd gone and built a portfolio of non-executive director roles and then stepped back into an executive chairman role in the summer of last year when we decided to make some changes to the management team at Telecity.

How do you think you form a good leadership team?

I honestly think there is nothing more important than forming a

strong leadership team in order to do a successful job as an executive heading up a business. The two words that always stick in my mind when talking about being successful are 'team' and 'balance'—the team that you can put around you, and providing balance in every sense. You can't be at one end of the spectrum or the other; you have to provide balance in what you try to do. 'Balance' is an incredibly important word, whether that's the balance between the demands of customers, shareholders, or employees, balance between different geographies, balance between investments and return.

What are the key values of Telecity?

What is absolutely crucial in my mind is being clear on what our values are and what we expect. At Telecity, we expect to provide incredibly high standards of service and to be a partner that customers can rely on and trust with their critical digital infrastructure. Starting from the board of the company, all the way through the organisation, it's important that we set standards—whether they're standards for ethics and moral behaviour, standards for how we treat customers, or standards about how we make investment decisions—because they matter deeply to our shareholders. It's really important that leaders in a ›

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business don't just talk about stuff but rather act in a specific way setting the example and living the company's values every day. I think what people look at is how I behave, not what I say. What I say works for a while, but the thing that makes a sustained difference is my actions being supportive of the words I use.

What kinds of customers do you work with, and why do you believe you've been able to build strong partnerships with these customers?

Our customers range from start-ups to Fortune 500s, local to global multinationals, and from established enterprises to cloud-service operators. All of these organisations share a need to locate network-dependent applications and services on IT hardware in resilient and secure data centres. We've got to continuously remind ourselves of the fact that people are choosing to house their critical IT infrastructure with us, and therefore they have to have faith that we are going to

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> - John Hughes

provide them with superb service. That relationship is built over a long period of time. And that isn't something that I built in the last year or so of doing this executive chairman role; this has been a key trait of the business, and it's one that at a board level we've focused on all through the public history of Telecity.

Customers have a choice, whether it's a choice between us and other data-centre providers, and putting their capacity in house. The only way we're going to succeed is if customers have trust in us to do the best job, to be reliable, to provide high-quality space, and to go the extra yard when they need it or when something goes wrong. Those are the key attributes that we have to show as a business.

How do you work with key supplier partners to achieve success?

None of us can operate as an island in the digital economy;

we've got to have relationships, partnerships with people we trust and who trust us to do things together in a constructive way. It's mandatory. We look at those key parts of our business that are dependent on partnerships, and then select a limited number of partners and work hand in glove with them. We make a bilateral bet. They're betting on our success and we're betting on their ability to support us in the right way, so you build a number of very deep partnerships where there really is a mutual benefit.

To give you an example: when we build a new data centre, obviously it's not just the physical bricks and mortar that we need; it's the entire electrical infrastructure. And on a number of occasions, the providers of uninterruptable power—the kind of power that means if we have a mains failure the customer doesn't notice any difference and their equipment keeps running—have gone through generational

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change. It's important to us to be at the right point of adopting new technology, but it's also important for the technology providers to have a showcase for their new technology.

So we have chosen at different points in time to work with one or two of our providers to push the envelope in terms of adapting to a new piece of technology that they're bringing to market that gives us both a commercial advantage. They have us as a showcase, which gives them the ability to talk to the rest of the industry about the fact that Telecity has adopted their technology. That kind of symbiotic relationship exists only with a handful of suppliers; it's not a lot, and they really, really matter to us. I don't think it can work if it's one way. We're in a long-cycle business, and the only way that relationships in a long-cycle business work is if, over a long period of time, you can provide each other with mutual value.

"It is the sensation of synergy. Infradata, with its extensive knowledge of, and experience with next generation networks and Telecity, the ever improving and innovating datacentre services provider, are inspiring each other to be on top of their game every day!" - Nino Tomovski, Vice President International Infradata

What do you believe are going to be the biggest challenges over the next couple of years for Telecity?

I think we're in a period where we're seeing a very fundamental change in the computing paradigm that enterprise customers use. There's been a huge amount of discussion about cloud computing and what that means for business. I think for a while people felt it was just another bit of hype, some marketing that some computing industry executives had dreamed up. The reality is that people are changing the way they do things.

What do we do? We invest our shareholders' money to buy and build physical data-centre assets; we then provide good service to the customers of those data centres, and we employ really good people to provide that service. And we spend the shareholders' money to build assets that have up to 30-year lives in a market where the technology will change on maybe five-year cycles.

So what we have to do is to make sure we are constantly alive to the changes that are going on in the industry that we serve, and that we continue to make our assets ›
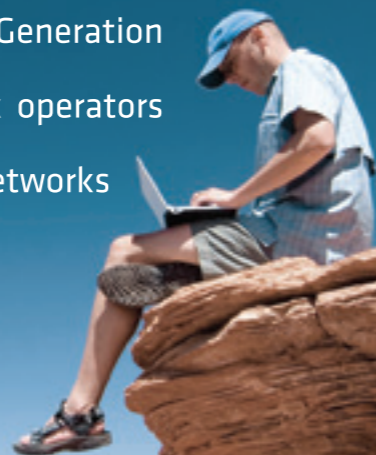
relevant to those changes—otherwise we have physical assets that are no longer relevant to people. And that's the biggest challenge in my mind: it's how do we continue to make sure that what we're doing is very valuable to people, and therefore that all of the assets we have, physical and people, are relevant to our customers. And that's not easy in a world where the whole computer paradigm has shifted. I can remember people talking two or three years ago about the fact that cloud computing was coming and asking us whether cloud was a threat to our core business.

On the contrary, we've always believed that cloud was an opportunity, but the challenge was for us to prove this and make sure we were relevant to that changed world. If you think about our business model, we've invested around a billion pounds in our data centres over the life of the company, between buying, building, and maintaining them, so

there's a tremendous amount of shareholder value that's been put to work there. If we do something that then makes those prize assets less valuable, we will destroy that value overnight. So it is a real challenge. We have to be constantly vigilant and aware of changes in the marketplace in order to protect our data-centre assets.

So we are working hard to develop services that position us to take advantage of the emerging cloud dynamic. We are well placed to do this, given that we host the major global cloud service providers already. For example, our new Cloud-IX service enables customers to access major public cloud service providers such as Azure and AWS, hosted in our data centres over a secure and private connection. Our customers are responding well to this evolving approach, and we are excited about the role we can have in enabling cloud deployments for the enterprise market.

What does the future hold for Telecity?

We're in the midst of a fairly interesting period where we started out early this year making an offer to buy one of our competitors. That's been turned on its head, and we've now agreed to recommend a takeover by global player Equinix. Clearly, looking forward, I would expect—without wanting to prejudge all the regulatory work that will be done by the various competition authorities—Telecity will become a very important part of Equinix. We will still be operating in a very competitive market, but will be a significant market player with a very high calibre of offering.

One of the most positive things about the proposed transaction is that culturally the two companies are a pretty good fit. We expect the merged business will be a good place for our employees and our customers. Further, the proposed transaction will broaden

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Equinix's reach by complementing and extending Equinix's geographic footprint in Europe. The business we're in is becoming ever more global, and to be part of a leading global player will be incredibly important.

The message is very straightforward. This is about continuing to build on the success

of the business we have created. Whether it's Telecity as an independent entity or Telecity as part of Equinix, we will have the same values, will drive the same kind of value for our shareholders, and provide the same excellent service to our customers. We want the business to be a place where people want to work, are happy, and proud to be part of. o

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