

Data Sales to server farm startups: consider leasing

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Data Sales is pitching its expertise in the hardware technology sector and experience working with early-stage firms in order to raise the level of awareness and interest in the kind of IT leasing and financing it can offer. Its services can enable companies to avoid costly equity sale or debt financing to fund capital equipment spending, especially for firms that need to build out their own server farm infrastructure.

The 451 Take

IT equipment leasing and financing is an instrument that has been used successfully by firms such as SoftLayer, Joyent and DigitalOcean to grow their businesses at times when selling equity expensively or taking on debt weren't part of their plans. It can be useful for firms building server farms that are at an early stage and have moved beyond AWS, Rackspace or other outsourcing options. Data Sales specializes in early-stage firms that aren't attractive to other leasing firms.

Context

Data Sales has been in business for 40 years. It was originally a buyer and seller of IBM mainframe equipment and added leasing capability in 1979. It now customizes lease programs for emerging growth Web hosters and established firms, including Fortune 500 companies. Its differentiation is its experience in selling business technology exclusively. It offers both financing and hardware leasing. Its technology hardware sales division works with recertified and refurbished equipment – including storage products, print systems, networking, PC and server hardware and parts. It provides asset management and tracking for customers' IT estates. Data Sales has undertaken

about \$2bn in lease origination, and has roughly 1,000 customers and 100 employees at its Scottsdale, Arizona and Burnsville, Minnesota locations. Firms that have been customers, such as Joyent and DigitalOcean, are now doing tens of millions of dollars in revenue a year, while SoftLayer used Data Sales to build its top line before getting itself acquired by IBM for \$2bn. Other customers include FastServers (growth without equity sales, acquired by Layered Tech), Bluelock (avoided further equity sales), Cypress Communications and Legend3D.

Strategy

It's seeking companies in the US, Canada and the Netherlands that would typically have taken on seed money to purchase their own infrastructure, that have revenue of \$1-10m and that need capital to build their businesses. These firms will typically have moved beyond outsourcing, AWS or Rackspace and are seeking to build out their own infrastructure. Firms building server farms in social media and gaming are key targets – they will have decided not to go down the route of giving up valuable equity at an early stage to VCs. Indeed, Data Sales argues that the lease option enables firms to grow their top line so that it is then less expensive to sell equity. Traditional bank debt financing is hard to get or not available to the companies that Data Sales targets. Data Sales emphasizes it can support very-early-stage companies without two years audited accounts; it underwrites the leases and holds them on its own account. Data Sales doesn't require personal guarantees or personal deposits, and there is no long-term interest, such as a position on a board of directors.

Data Sales says that most traditional funding sources underwrite leases based solely on credit-rating analyses such as balance sheets, income statements and cash-flow reports. On their own, these ignore the value of the IT hardware equipment, as well as forward-looking indices such as growth trends, market position and opportunities. Data Sales focuses on the IT hardware, especially brand-name equipment, and it assesses the market position of customers. It says this combination allows it to write more leases. Lease terms are 24-36 months – its customers can usually profit from using the equipment in less than a year. When the lease is up, the customer can buy, renew or return the equipment.

Competition

Data Sales argues that other IT equipment leasing/financing firms such as GE Capital simply don't have the experience in the hardware tech sector, nor can they support the kind of early-stage ventures it can. Moreover, many leasing firms get their financing from third parties. By comparison, Data Sales is self-funded and has the background to be able to write leases that other firms can't,

and hold them on its own account rather than sell them off.

SWOT Analysis

Strengths

Data Sales has deep experience in business IT and is prepared to work with early-stage firms that would struggle to find lease or finance options without giving up valuable equity.

Opportunities

Leasing server gear is an alternative to raising money through the sale of equity or taking on debt for capital equipment expenditure. Joyent, DigitalOcean and SoftLayer have all been Data Sales customers.

Weaknesses

IT leasing or financing isn't usually seen as an option in today's market. Data Sales will need to raise its profile with target audiences to bring itself into consideration.

Threats

Cloud and hosting firms are making it attractive for startups to grow their businesses; however, cloud and hosting startups are exactly the kind of company Data Sales is seeking to win.

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