

# Data Processing & Hosting

NAICS: 518210

SIC: 7374

*prepared February 18th, 2022*

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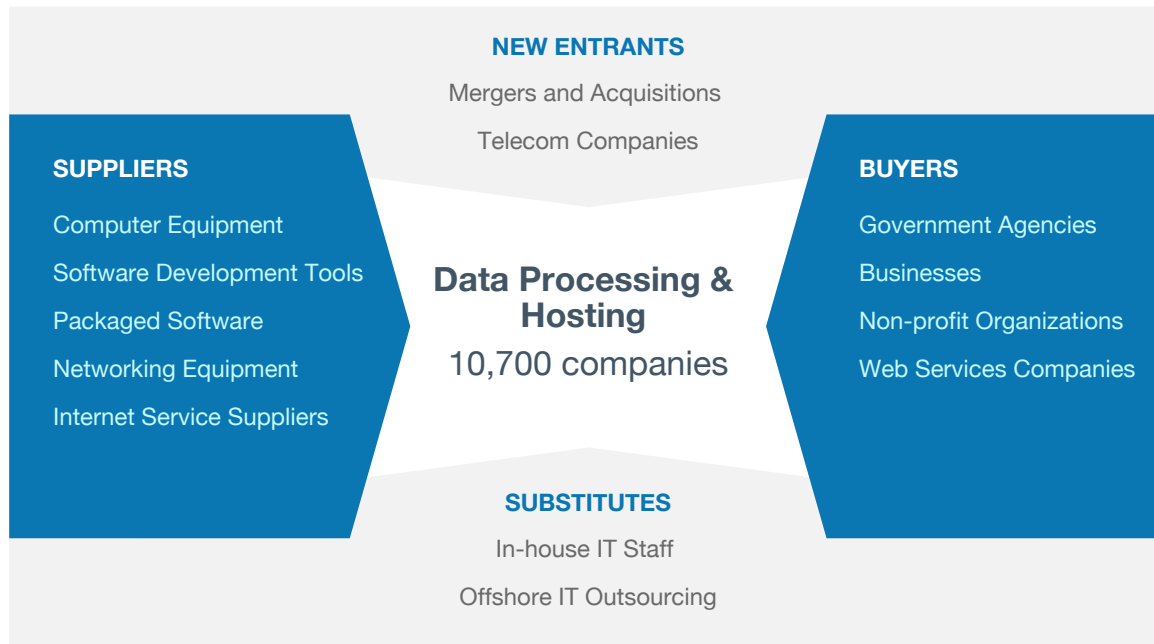
# Coronavirus Update

## Jan 25, 2022 -- Pandemic Drives Closure of On-site Data Centers

- More than half (51%) of respondents to a survey of 1,600 IT professionals by network specialist Aryaka said that they were planning to close all of their on-premise data centers in the next 24 months, and 27% said they would eliminate at least some of their facilities – all in favor of cloud computing. The change is thought to have been caused by the rapid introduction of hybrid work models, which pushed businesses to embrace the cloud and applications delivered as a service. Nearly half of the respondents said that 25-50% of their organization's employees were working remotely over the last 18 months, and a quarter said they closed between 25-50% of their work sites. After the pandemic-related restrictions are lifted, 43% said they anticipate that up to half of their company's workforce will remain remote. This reduces the demand on apps and services delivered from legacy in-house data centers.
- Near-record growth for the data center industry throughout the first half of 2021 centered around the traditional data center hubs of Northern Virginia and Silicon Valley, but analysts at real estate services firms JLL and CBRE suggest that a more decentralized data ecosystem is being developed with future growth focused on regional hubs and secondary markets. Areas like Hillsboro, OR, Columbus, OH, Miami, and Salt Lake City, UT, are all seeing significant data center development, offering affordable land and power and, increasingly, tax benefits. A hyperscale facility in a region often paves the way for further data center development. Experts cite an expected shift toward so-called edge infrastructure, driven in part by pandemic-related changes like increasing telecommuting, and growing fiber rollout across the country as key drivers of decentralization.
- Investment in edge computing infrastructure slowed during the first half of 2021 due to lockdowns that pushed work and education online and forced spending on infrastructure to be redirected to core operations. Small, unmanned “edge computing” data centers in modest cities are often the only way to provide super low-latency services to residents in such locations. Otherwise, their Internet traffic must travel first to bigger data centers in major cities, adding precious milliseconds to delivery of services that need to be almost instantaneous, like virtual reality streaming. Ericsson shuttered its Edge Gravity business for edge computing in 2020. Startup EdgeMicro has reportedly entered liquidation. The company had planned to build mini data centers for edge computing in locations all over the US, but it only managed to build around half a dozen in markets including Austin, TX, and Raleigh, NC. EdgePresence said in 2019 that it would build EdgePods – its own mini data centers – across almost two dozen markets. The company lists just 11 locations that are up and running in late 2021.
- The Union Bank tower, a landmark office block in Portland, OR, will be converted into a multi-story data center. Industry experts say that the project may be on the leading edge of a trend driven by the need to move data centers closer to customer facilities, but the number of office buildings suitable for conversion to data centers is limited. Union Bank tower is on the central junction where most of Portland's fiber links meet. It already has a meet-me room, a place within a colocation center where telecommunications companies can physically connect to one another and exchange data without incurring local loop fees. It also has about 18 existing data center spaces amongst its office tenants.
- Data processing and hosting services may benefit from pandemic-driven increasing interest in reshoring. Many manufacturers who say that cost reduction is essential to successful reshoring are exploring the use of autonomous and semi-autonomous machines, sensors embedded into physical infrastructure and objects, streamlined data-processing, and even mixed reality applications on the factory floor. Use of this technology would likely boost demand for data storage and processing, which is a key element of autonomous and semi-autonomous technology use.
- Analysts say that the supply of server CPUs, such as those used in data centers, looks steady because server CPUs produce more profit for chip manufacturers than their other products, so they've been prioritized. Things look bleaker in other data center industry subsectors. Network-switch vendors are dealing with extraordinarily long silicon lead times, leaving their executives trying hard to convince stock analysts of their ability to source enough to meet their revenue forecasts for the year. Companies have been spending a lot more time and money than normal on supply chain management. One large power and cooling infrastructure equipment vendor said it will likely pass this extra cost to its customers.
- Pandemic-related telecommuting has significantly reduced overall energy demand and offsets any increase in data center energy consumption caused by telecommuting, according to the Datacenter Dynamics industry news site. Newer data center designs and innovative technologies such as solid state batteries and hydrogen cells positively impact the sector's carbon footprint target as they are used to replace emergency power generated by fossil fuels.

- Some enterprises are seeking shorter data center lease terms as they re-evaluate their IT needs in the wake of the pandemic, according to commercial real estate services and investment firm CBRE. Hybrid models, where some workloads are handled on-site and others in the cloud, are gaining traction, according to Prime Data Centers CEO Nicholas Laag. “Large enterprises were already migrating many workloads to the cloud. The concept of a distributed workforce has accelerated that adoption, as well as the decision to deploy hybrid cloud models and consider sale-leaseback scenarios to reduce overhead and focus on their business,” Laag said.
- A panel of investment bankers who advise data center operators said that the industry appears set for a sustained boom, fueled by the acceleration of digital transformation across the business world as a result of the pandemic. Much of the growth will be driven by hyperscale cloud service providers, which will have deployed 2.1 million new IT racks between 2020 and 2025. The expected deployments translate to roughly \$62 billion in capital spending on data center infrastructure, according to 451 Research’s projections. “These incremental deployments ... won’t be made solely by the cloud players themselves,” Jonathan Schroth, research analyst for data center services and infrastructure at 451, said. “They will need to work with these data center providers and operators to expand their footprints, especially in the markets where they are not located today.”
- Data storage requirements are rising due to increasing use of data-generating IoT products like remote connected health monitoring solutions, packaging and shipping trackers, and streaming devices. Use of IoT products is rising due to greater reliance on telecommuting, telehealth, and telelearning. Industry experts say that many companies are now looking at establishing smaller locations closer to the customer, reducing reliance on larger data centers with central data resources. For medium- to large-size companies, deploying many more of those edge data centers means they need their own specific storage. It is a fundamentally different architecture that is required to increase the speed at which data can be accessed and processed.

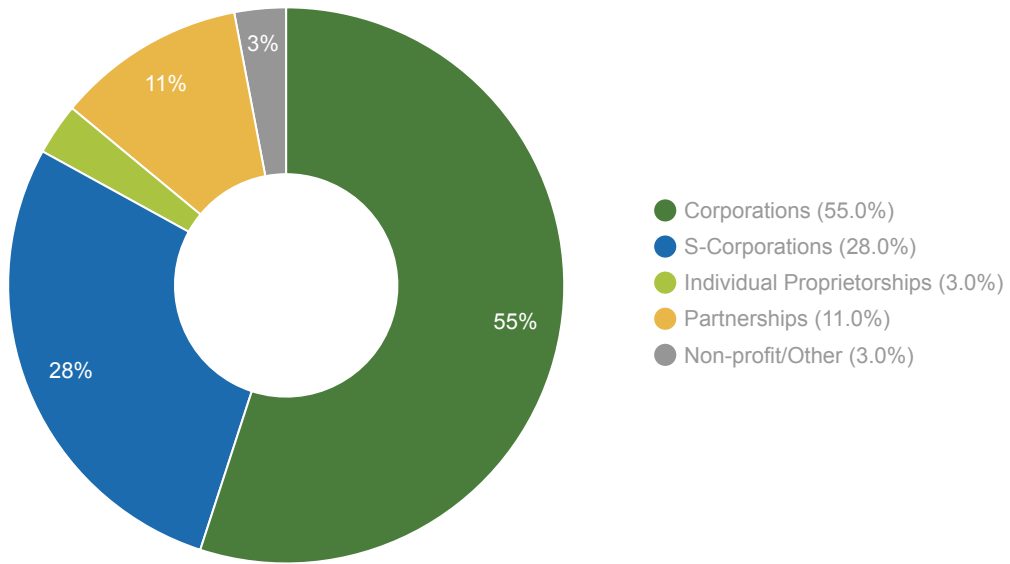
# Industry Structure



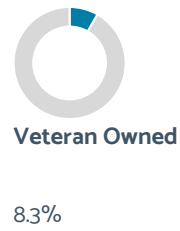
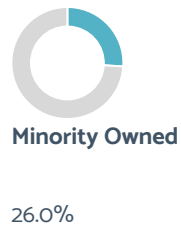
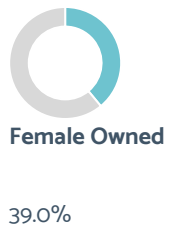
The average data processing and hosting company has about 33 workers and \$20 million in annual revenue.

- There are about 10,700 data processing and hosting companies in the US that employ 355,000 workers and generate revenue of \$215 billion.
- 61% of firms operate out of a single location.
- Large data processing and hosting companies include Automatic Data Processing, FISERV, Rackspace Hosting, and Alliance Data Systems. Web hosting and cloud computing services are also provided by units of large companies, such as AT&T, Amazon.com, Google and SS&C Technologies.

# Industry Demographics



Source: US Census Bureau



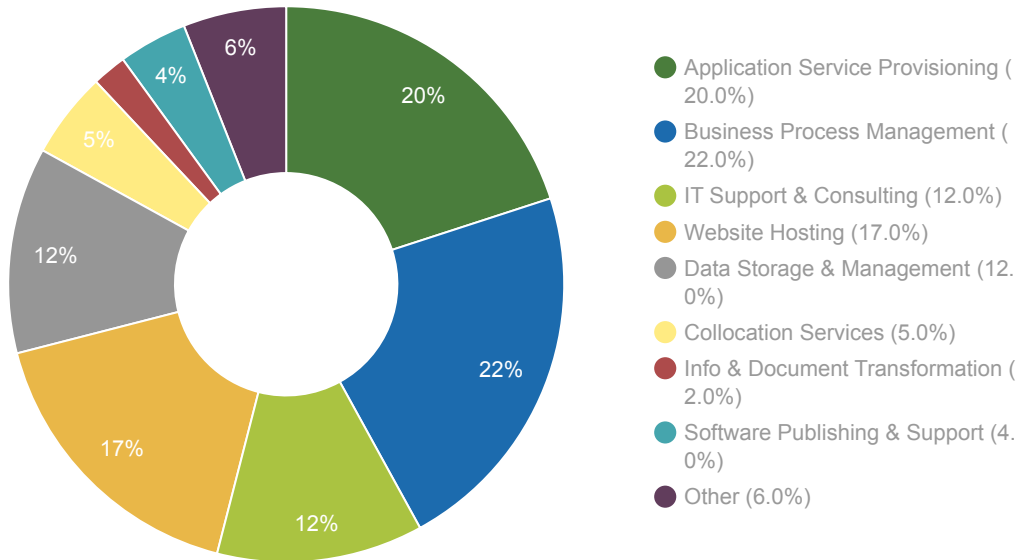
Source: Census Bureau

# How Firms Operate

## Products and Operations

Data processing and hosting companies provide outsourced information technology services to businesses and other organizations. These services include automating business processes, website hosting, providing business software applications via the Internet, video streaming services, time-shared computer capacity, and data entry and reporting services. Application Service Providers (ASPs) provide business management software to clients using a “Software as a Service” (SaaS) model, eliminating the need for clients to install and manage their own servers.

**Data Processing & Hosting Revenue**



Source: US Census Bureau

Data processing and hosting companies provide a range of outsourced IT services to customers:

**Colocation Services** – Firms rent space in their data centers for customers to install and manage their own servers and other equipment. The hosting company provides the data center infrastructure and access to the Internet, but the customer is responsible for all maintenance and upgrades to their equipment.

**Dedicated Servers** – Firms purchase servers and other equipment to meet a customer’s requirements and manage and operate the equipment for a monthly fee. The equipment is dedicated to the customer’s use, and the customer must pay to upgrade the equipment if they outgrow its capacity.

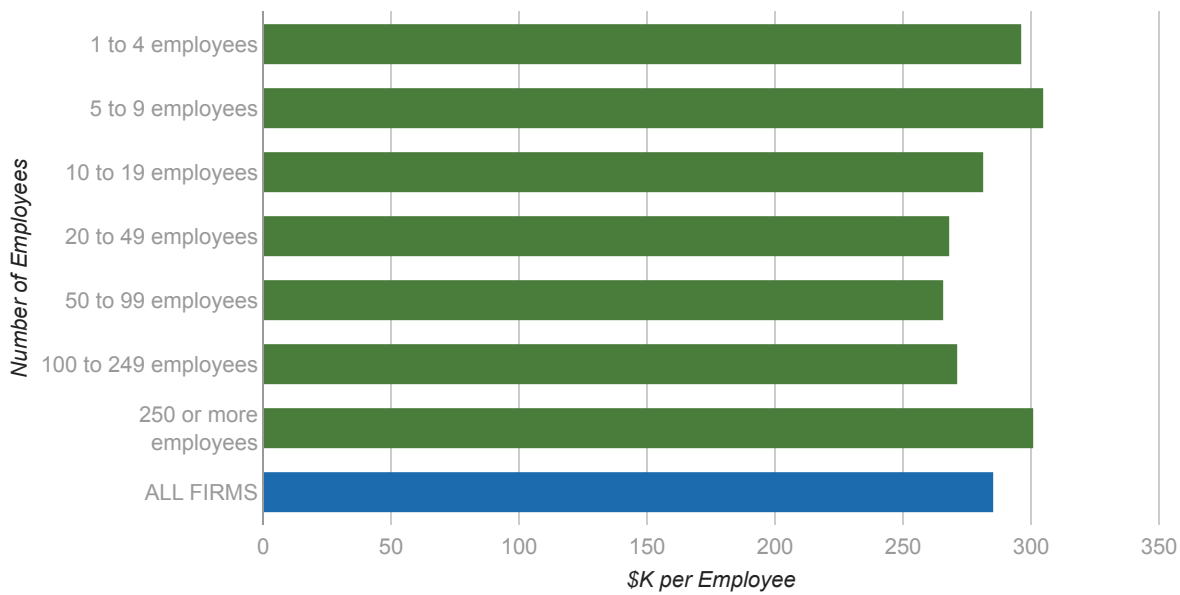
**Shared Servers or Cloud Services** – Customers do not have dedicated equipment, but share equipment with other customers and pay for the amount of computing resources they use.

**Application Service Provider** – Firms provide access to a business application via the Internet for a monthly fee. The application is developed and owned by the firm and they may host it in their own data center or contract to install it at another hosting company’s data center.

Sale of services is via direct sales teams, third-party channel partners, and on-line marketing. Channel partners include consulting firms, technology integrators, software application developers, and web developers. Marketing efforts include web-based paid and natural search, participation in technology trade shows and conferences, on-line and traditional advertising, and public relations activities.

About one-third of the employees at data processing and hosting companies have computer backgrounds and are involved in developing products, delivering services, and providing customer support. Positions include computer programmers (average salary of about \$95,600), computer support specialists (\$60,100), computer systems analysts (\$99,000), and software developers (\$114,200).

Revenue per Employee by Firm Size



Source: US Census Bureau

## Profit Drivers

### High Infrastructure Utilization

Hosting companies have large fixed costs for data centers and IT infrastructure and need to maintain high customer utilization of their available computing capacity. Their level of investment for a particular customer depends on whether they are providing co-location services, dedicated servers, or cloud computing services. Hosting companies must invest in additional capacity as customers' needs grow and they add new customers. They must carefully forecast customer demand and plan capacity additions to avoid periods of excess capacity.

### Increasing Billable Hours

Data processing and hosting services rely on skilled technical staff to implement business automation projects for customers and to support and maintain IT infrastructure. Firms improve profitability by increasing the number of hours billed to customers by technical staff and minimizing their unbillable time. Some unbillable time cannot be avoided, such as time for training, staff meetings, and preparing sales proposals, so firms build coverage of this and other overhead into the rates they charge for services. As technology evolves, demand for expertise in particular technologies can fall and may lead to excess unbillable time for some staff members. When this occurs, those staff members must either be trained in newer technologies or be let go.

### Managing Customer Projects

Implementing business automation applications for customers can be complex and firms must tightly manage project activities and deliverables to avoid cost overruns. Overruns can reduce the profitability of the project, create customer dissatisfaction, and lead to billing disputes that delay payments. Firms need trained project managers, clear definition of the project scope and requirements, and formal communication and change management processes to deliver projects on-time and on-budget.



# Industry Trends

## **Trends are affected by the COVID-19 pandemic.**

Changes in revenue, employment, business practices, trade and forecasts are occurring rapidly and data reporting by the government lags the changes. We are tracking changes in the “Coronavirus Update” chapter.

## **Rapid Growth of Mobile Devices**

Sales of smartphones and tablets now outpace sales of PCs, and these mobile devices have become the primary vehicle for many people to access the Internet and application services. Businesses are developing mobile applications to allow employees to access business systems while out of the office. They are also developing mobile applications to market to customers. Data processing and hosting companies need to be able to support these new application requirements, and competition for technical staff with experience developing mobile apps is intense.

## **Growth of Software as a Service**

More businesses are opting for a Software as a Service (SaaS) model, where they pay a monthly fee to allow users to access business applications via the Internet. Adoption of this model is driving demand for web hosting services. SaaS is particularly attractive to small businesses who want to avoid the cost of purchasing and managing software and server systems. For software vendors, SaaS makes it easier to implement new customers and to upgrade software with new features and fixes. Software vendors may host SaaS applications in their own data centers, but many contract with web hosting companies to ensure high availability of systems and automated disaster recovery capabilities.

## **Cloud Computing**

Widespread adoption of cloud computing has increased demand for data processing and hosting companies. Cloud computing is the “hot” marketing trend in IT services. It is sometimes referred to as Infrastructure as a Service (IaaS) and allows companies to access software applications, obtain additional computing power, and store data via the Internet, as they need it. Business customers pay for the services they use, similar to the way in which consumers pay an electric utility, and avoid having to invest in and manage additional infrastructure.

## **Increased Disaster Recovery Planning**

Natural disasters (such as hurricanes and tornados) and man-made events (such as the electrical black-out in the Northeast) have increased emphasis on disaster recovery planning for companies’ critical IT infrastructure. Having back-up locations that can take over if a company’s data center is not operational has created opportunities for data processing and hosting companies to provide this stand-by capability. It has also forced them to invest in multiple data center locations and to design data centers that can withstand hurricane-force winds, house back-up electric generators, and incorporate other protective measures.

## **Business Adoption of Social Media**

Along with mobile devices, businesses are also increasing their use of social media both to communicate with customers and employees and as a source of business intelligence. Companies are revamping their business applications to include social media sites as marketing channels and to gather and analyze customer data from these sites.

## **Rising Labor Productivity**

Data processing and hosting companies have been automating their operations, allowing them to increase employee productivity. From 2010 to 2020, industry revenue rose 177%, while overall industry employment increased 45%. Growth in sales of standard products, such as SaaS applications, has also contributed to increased productivity. Delivery of standard products is less labor-intensive than delivery of custom IT services.

## Investing in Renewable Energy

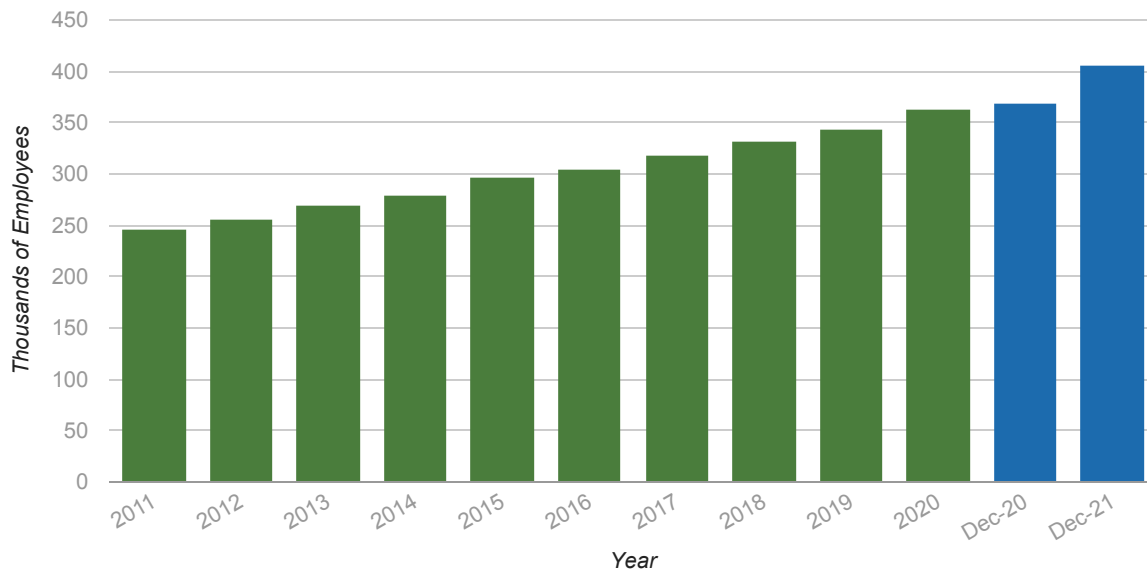
Data processing and hosting centers are looking to renewable energy sources in efforts to reduce reliance on power grids, improve their carbon footprint, and meet customers' requirements. More customers are asking about energy consumption and responsible energy use. Firms are beginning to install solar and wind power-generating equipment and purchasing renewable energy from utilities through Power Purchase Agreements (PPA). Renewable energy has been viewed as risky due to its intermittent nature, but equipment advances are making it a more reliable power option. Respondents to a 2019 survey of the global data center industry expect that 13% of their power will come from solar and 8% from wind by 2025.

## Employment and Wage Trends

### Employment by data processing and hosting services increases

Overall employment by data processing and hosting services changed 9.9% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

Data Processing & Hosting Employment

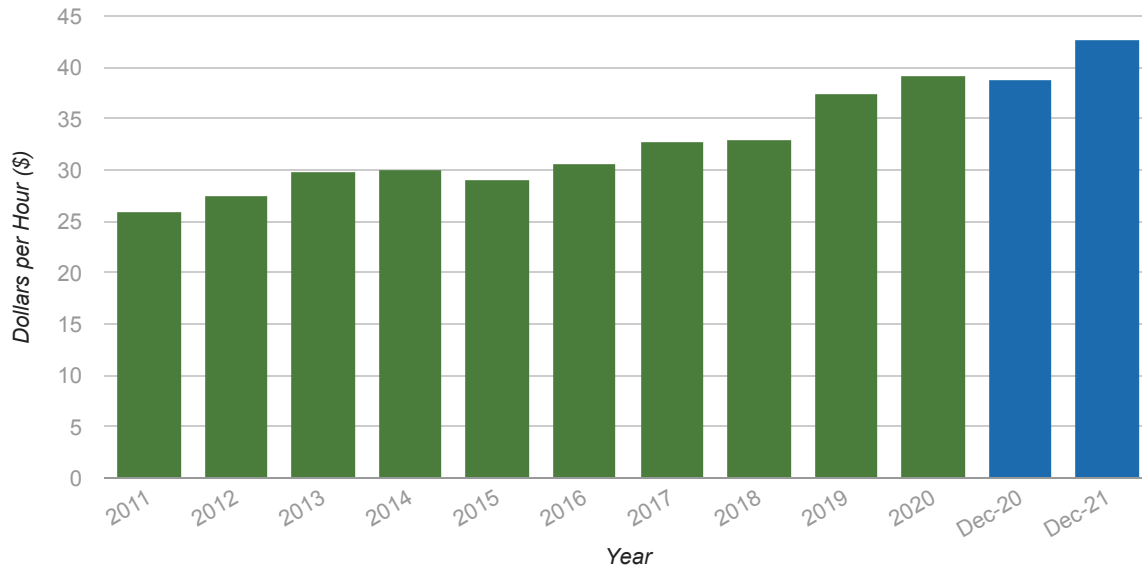


Source: Bureau of Labor Statistics

### Wages at data processing and hosting services rise

Average wages for nonsupervisory employees at data processing and hosting services were \$42.68 per hour in December, a 10.0% change compared to a year ago.

### Average Wages for Nonsupervisory Employees



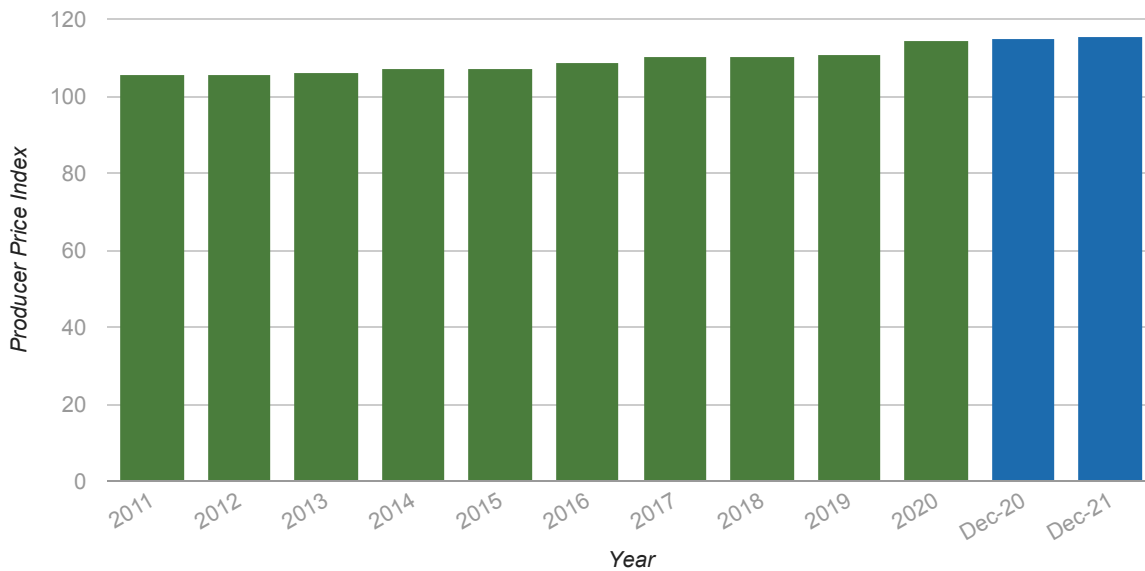
Source: Bureau of Labor Statistics

### Price Trends

#### Producer Prices for data processing and hosting services rise

The Producer Price Index for data processing and hosting services changed 0.52% in December compared to a year ago, according to the latest data from the Bureau of Labor Statistics.

#### Producer Price Index for data processing and hosting services



Source: Bureau of Labor Statistics

# Credit Underwriting and Risks



<b>Business Exit Rates:</b>	5.0	Comparable to US average for all businesses
<b>Cyclical Sensitivity:</b>	5.0	Low sensitivity
<b>Barriers to Entry:</b>	3.4	High initial capital; high regulatory/technical barriers; moderate concentration
<b>External Risk:</b>	4.3	Low external risk
<b>Industry Outlook:</b>	4.4	Higher than GDP; low cyclical risk
<b>Financial Summary:</b>	5.6	Very low margins; high liquidity; very low leverage

## Key Metrics

METRIC	VALUE	COMPARISON
<b>Performance During 2007–2009 Recession</b>	10.7%	0.0% GDP
<b>Business Exit Rate 2019–2020</b>	9.52%	9.0% All Industries
<b>Compound Annual Growth Forecast (2020–2025)</b>	7.08%	6.1% GDP
<b>SBA 7(a) Default Rate by Number of Loans (2010–2019)</b>	2.27%	3.82% All Industries
<b>SBA 7(a) Default Rate by Gross Loan Amount (2010–2019)</b>	0.38%	1.21% All Industries

## Underwriting Considerations

- As a service based industry, what satisfaction level do the company's clients give your client/prospect?
- Having large clients can be typical in the industry. This brings concentration risk. How concentrated is your client/prospect?
- Service based businesses tend to have lower leverage as there are lower capital expenditures with higher levels of cash flow. To stay within industry standards, it is recommended the company/prospect has lower debt and high liquidity levels.
- LOC's are typically collateralized with AR.
- Numerous and significant risks requiring a management team that understands and has experience managing these risks.

## Industry Risks

### Rapid Technological Change

Hardware, software, and networking technologies continue to evolve at a rapid rate, creating challenges for data processing and hosting firms, who try to keep up with the latest innovations. Businesses frequently look to data processing and hosting companies to take advantage of new technology for which they lack expertise, so firms must stay abreast of the latest advances. To develop the required expertise, data processing and hosting companies continually upgrade their hardware and software systems and invest in staff training and recruiting.

### Protecting Security of Customer Data

High profile incidents of computer hackers gaining access to social security and credit card numbers housed on a customer's behalf has increased security concerns for data processing and hosting companies. They are being forced to invest in new security software, hardware, and procedures to protect customer data. Firms that suffer from security breaches risk losing both existing and prospective customers.

## **Competition from Offshore Outsourcing**

Data processing and hosting companies compete with companies in India, Russia, and other countries for IT services business. These “off-shore outsourcers” can take advantage of relatively low IT staff wage rates to offer cost savings for IT development, maintenance, and support services.

## **Competition for Technical Talent**

As information technology rapidly evolves, finding and retaining staff skilled in the latest advances can be a challenge for data processing and hosting companies. They compete with each other for talent, as well as with in-house IT departments and small technology start-ups. This competition for technical talent can drive up labor costs. Average hourly earnings for nonsupervisory staff at data processing and hosting companies rose 51% from 2011 to 2020.

## **High Customer Expectations**

As businesses have become more dependent upon their information systems, particularly for customer-facing applications, they have raised their expectations for reliability and performance. Data processing and hosting companies are expected to provide “24x7” uptime and rapid response times as a minimum for doing business. Businesses are adding more social media and video capabilities to their applications, creating additional challenges in meeting their performance expectations. Hosting companies typically provide service level guarantees and must refund customer payments if they are not met each month.

## **Environmental Concerns**

While data processing centers have an image as an environmentally-friendly industry, concerns are being raised about their high energy usage and emissions. US data centers use over 90 billion kilowatt-hours annually, or about 2.4% of all electricity used in the US. As much as 90% of this electricity usage can be wasted by powering data servers in standby mode that are not doing any computing. In addition to high energy use, the banks of diesel generators used as power backups emit diesel exhausts in violation of clean air standards. Globally, the industry could consume as much as 21% of generated power by 2030.

## **Company Risks**

### **Customer Concentration**

Winning large contracts can result in data processing and hosting companies becoming overly dependent on one or several clients. They risk revenue shortfalls if those clients cut spending or change vendors. Large clients also have the power to dictate contract terms that may impose additional costs or risks for the company.

### **Technical Obsolescence**

Data processing and hosting firms that fail to continually invest in new technologies and staff training risk falling behind their competitors and not meeting the expectations of clients. Firms must maintain skills in older technologies to support legacy applications for their clients; at the same time, they must acquire skills in the latest “hot” technologies to attract new clients and new projects with existing clients. Firms who skimp on spending for new technology and training to improve their short-term financial results risk long-term obsolescence.

### **High Staff Turnover**

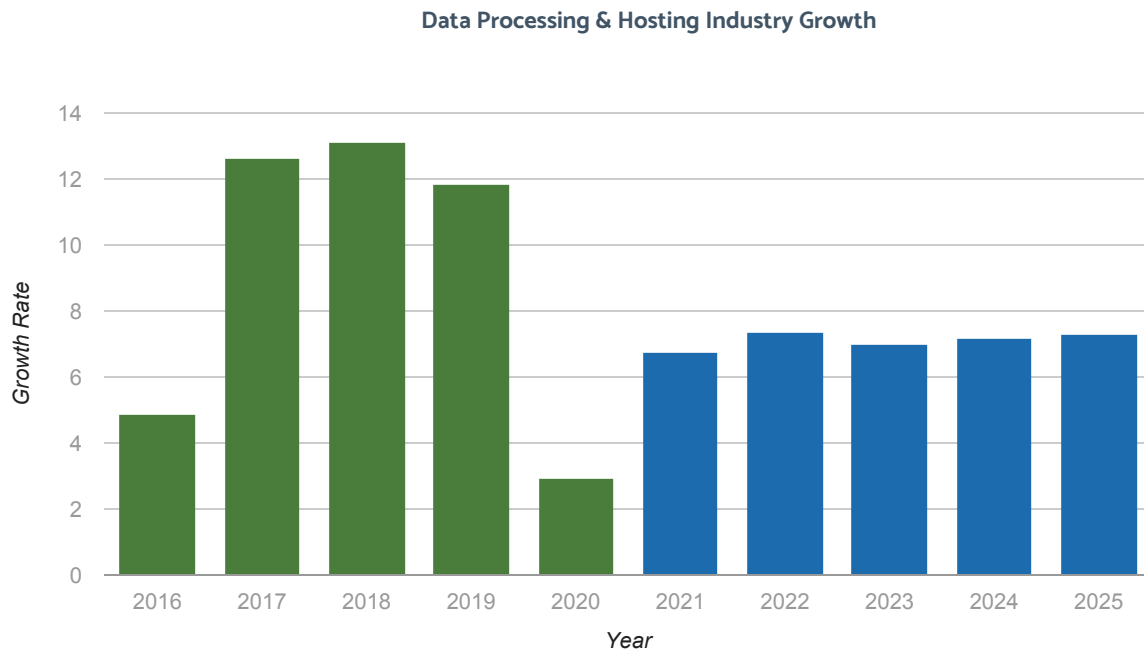
Competition for technical talent can lead to turnover problems at data processing and hosting companies. Competitors and clients may lure skilled employees with offers of higher salaries and signing bonuses. High turnover can impact the company’s ability to deliver contracted services and increase their recruiting costs.

# Industry Forecast

Sales for the US data processing and hosting companies industry are forecast to grow at a 7.08% compounded annual rate from 2020 to 2025, greater than the growth of the overall economy.

Vertical IQ forecasts are based on the Inforum inter-industry economic model of the US economy. Inforum forecasts were prepared by the Interindustry Economic Research Fund, Inc.

Last Update: August 2021



Source: Interindustry Economic Research Fund, Inc.

# Working Capital

## Sell and invoice

Data processing and hosting services companies provide outsourced IT services to businesses, non-profit organizations, and government agencies. Services may be provided on a project basis under a one-time contract, or on a recurring basis under an annual or multi-year contract. Both cases usually involve a competitive bid process during which the company submits a proposal outlining the tasks and cost of the work to be performed. Depending on the scope of the project, payments may be tied to specific milestones and an initial payment in advance may be required. Recurring services, such as web hosting, are usually billed monthly and involve an up-front implementation fee.

20% of computer services said they go to their accountant or bookkeeper for cash flow advice, while 17% turn to their banker and 78% do not seek advice, according to a survey of small businesses by Barlow Research Associates.

*Source: Barlow Research Associates.*

## Collect

Disputes over customer acceptance of work performed can delay payments, particularly for implementation of complex business applications. Once billed, customers may still be slow to pay. The average collection period ranges from 49 to 55 days.

## Manage Cash

Cash flow can be dependent on the timing of projects and delays in deliverables can postpone payments. Companies with a high volume of recurring services, such as web hosting, have more consistent cash flow.

Hosting companies have significant investments in computer hardware, software, networking equipment, and other data center infrastructure, and these usually require regular upgrades or additions to expand capacity. The timing of these upgrades can affect short-term cash flow, especially since capacity expansions precede anticipated revenue growth.

## Pay

Gross margins average 51-55%. Payroll is the largest expense and averages 19-22% of sales. Rent averages 1-2% of sales and companies typically spend 2-3% of sales on advertising.

## Report

After-tax net profit averages 4-7% of sales. Key operating metrics for data processing and hosting companies include capacity utilization, service levels (system availability), installed base revenue growth, customer retention and customer satisfaction ratings.

## Cash Management Challenges

### Cash Shortfalls Due To Project Delays

Projects to automate business processes or implement new software applications can be complex and subject to delays. Ill-defined requirements or changes in project scope can lead to rework and missed milestones. Disputes over scope or responsibility for cost overruns can delay final customer acceptance of applications and cause billing disputes. Delays in achieving milestones or final project completion can postpone payments and cause cash flow issues for firms, since technical staff must still be paid.

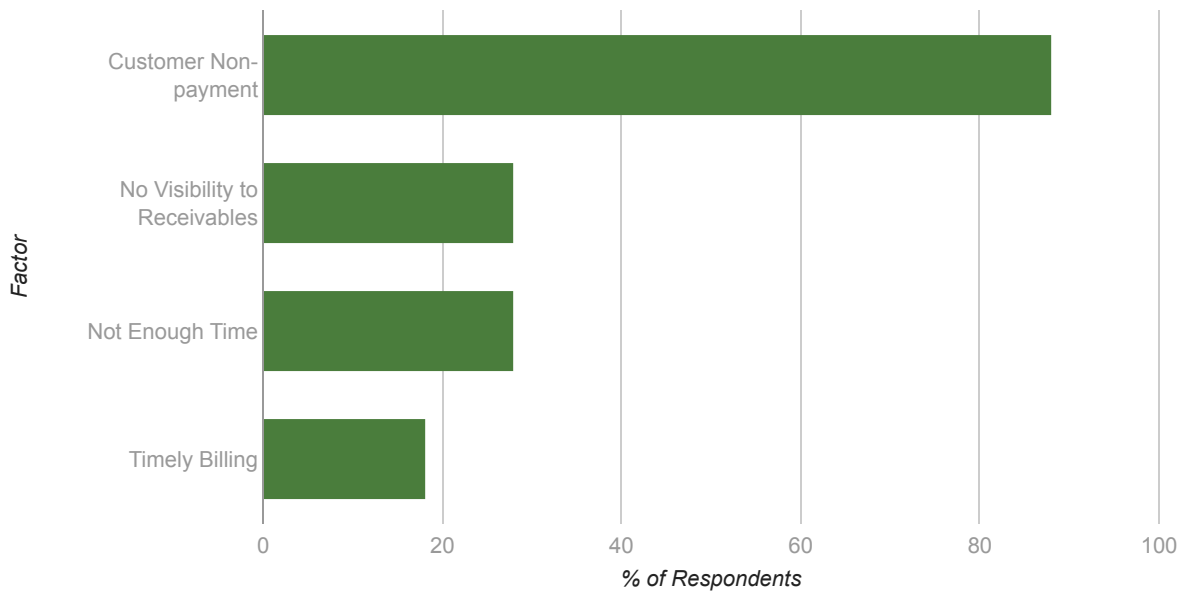
## Timely Collection Of Fees

When project milestones are achieved or monthly hosting fees are due, customers can still be slow to pay. Busy project managers may be slow to submit billable hours and progress reports for invoicing. Firms need timely billing when fees are due, an effective follow-up process for past due items, and quick processing to turn payments into available funds.

## Staffing Investments To Keep Up With Technology Trends

Given the rapid pace of technological change, firms need continual investment in technical staff training and hiring to keep up with “hot” technologies and customer needs. Funding technical staff training can put strains on short-term cash flow, due both to the cost of training courses and the loss of billable hours by technical staff. Competition for hiring staff with the latest technical skills can require higher salaries and signing bonuses that can also create short-term cash flow issues.

## Factors Causing Cash Flow Stress: Computer Services



Source: Barlow Research Associates



# Capital Financing

Data processing and hosting companies have significant investments in IT infrastructure and data center facilities. Hosting companies purchase computing equipment to support customers, including servers, firewalls, load balancers, cabinets, switches, backup libraries, data storage arrays and drives, and network cabling. They also invest in data center infrastructure, such as generators, uninterruptible power supplies, power distribution units, mechanical and electrical plants, chillers, raised floor and other building improvements. Companies may also capitalize the cost of developing software systems that they use internally to manage and automate data center operations.

The cost of a data center varies widely depending on its size. Initial capital expenditures for a data center are about \$1,250-\$2,000 per square foot, or \$1.25 million to \$2 million for a 1,000 square foot center. Ongoing costs include maintenance and repair of the data center infrastructure at \$150,000-\$250,000 per year and utility power costs of \$300,000-\$600,000 per year. The cost of maintenance for computers and network equipment is not included in these estimates, nor is the cost of operational staff.

One measure for comparing data centers is to look at the “total cost of ownership per rack”, where a rack is a standard enclosure for housing servers and disk arrays. One recent study estimated the total cost of ownership for an average data center to be about \$120,000 per rack, with about half of the total being capital cost. This cost does not include the IT equipment housed in the rack, which has a comparable cost over the lifetime of the rack.

## Examples of Equipment Purchases



### **Rack Enclosure**

*\$600 - 2,000*

24 inch wide rack enclosure with mounting hardware for servers and other equipment. Higher-end models have front and rear doors and removable side panels and comply with requirements for GSA schedule purchases.



### **Uninterruptible Power Supply (UPS)**

*\$10,000 - 12,000*

3-phase power supply with battery packs to maintain continuous operations through blackouts, voltage fluctuations, and surges.



### **Row-based Air Conditioning Unit**

*\$10,000*

Provides 33,000 BTU of cooling power for data centers to prevent overheating of computers and other equipment.



### **Console/Terminal Server**

*\$2,000*

16-port console for managing all of the equipment in the data center, either remotely or from the rack itself.

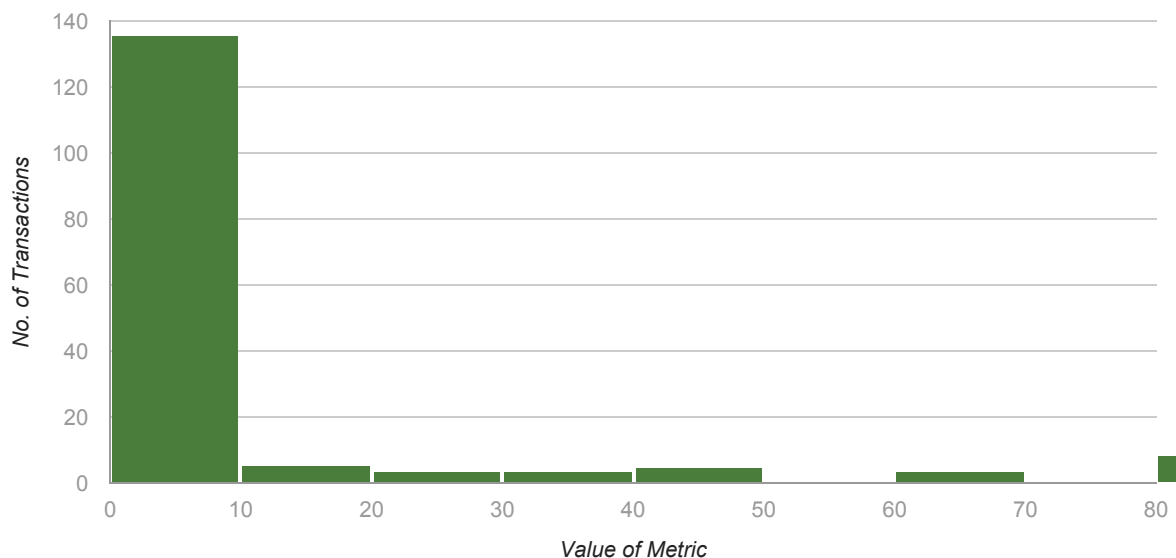
# Business Valuation

This data on business valuations is supplied by DealStats, an online database with the most complete financial details on nearly 36,000 acquired companies. These companies are mostly small and medium-sized private firms.

## Summary Valuation Data for Data Processing & Hosting

	MEDIAN	MEAN	# TRANSACTIONS	DATES
Price to Net Sales	1.58	44.65	161	09/30/1994–05/25/2021
Price to Gross Profits	3.48	55.25	152	09/30/1994–05/25/2021
Price to EBITDA	9.49	32.06	84	09/30/1994–05/25/2021
Price to EBIT	10.27	31.56	83	09/30/1994–05/25/2021

Click on the metric below to see a distribution of transactions for the industry:



Source: DealStats

Count: 161

Min: 0.06

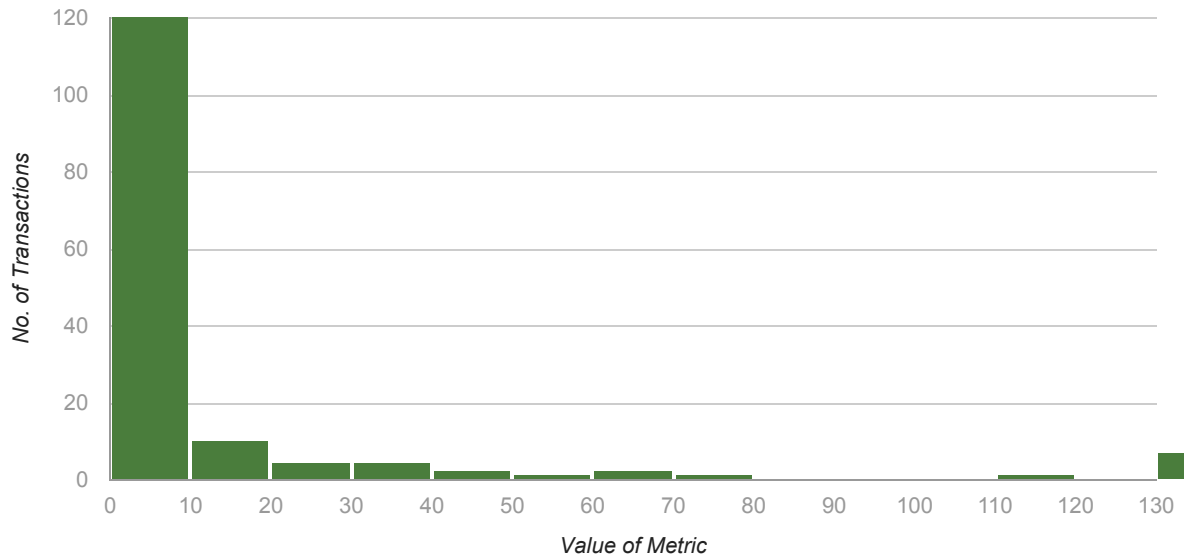
Max: 2084.03

Mean: 44.65

Median: 1.58

Price to Sales = Selling Price/Net Sales

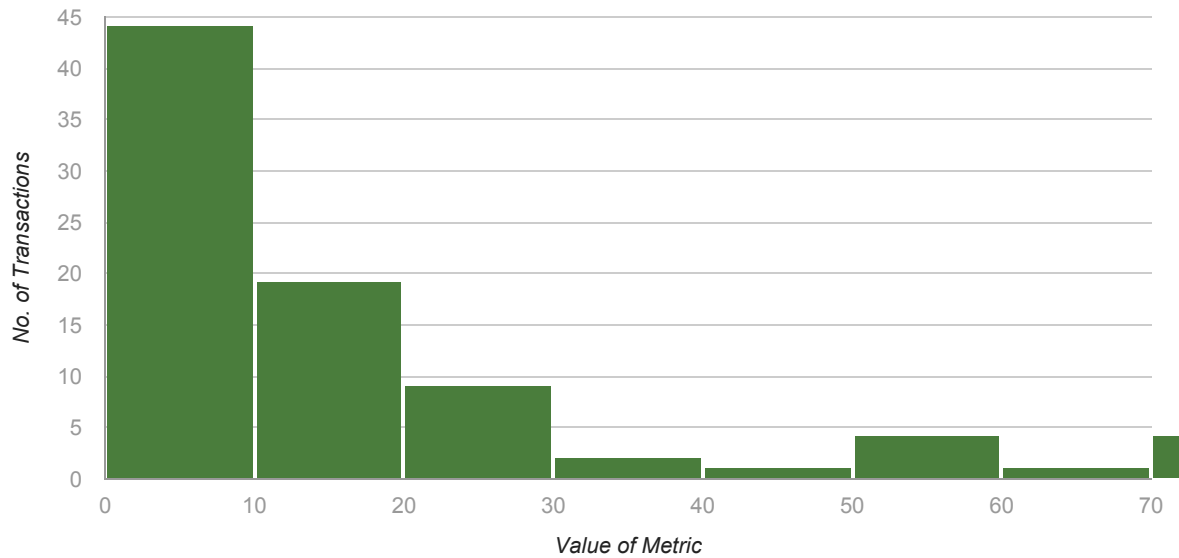
Date range: 09/30/1994 - 05/25/2021



Source: DealStats

**Count:** 152      **Min:** 0.3      **Max:** 2404.1      **Mean:** 55.25      **Median:** 3.48

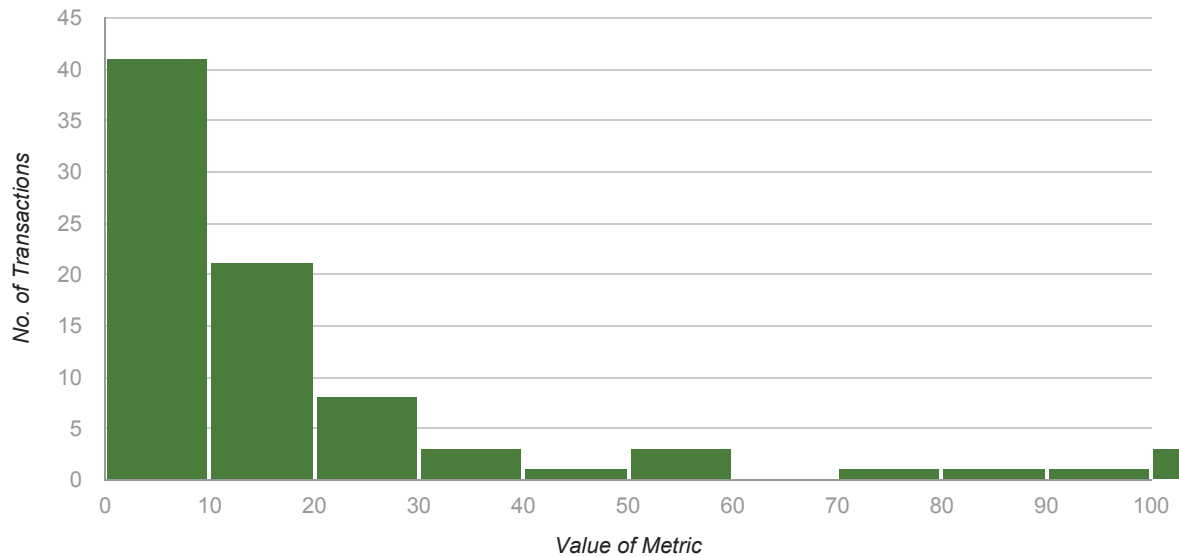
*Price to Gross Profit = Selling Price/Gross Profit*  
*Date range: 09/30/1994 - 05/25/2021*



Source: DealStats

**Count:** 84      **Min:** 1.0      **Max:** 801.97      **Mean:** 32.06      **Median:** 9.49

*Price to EBITDA = Selling Price/Operating Profit + Depreciation & Amortization*  
*Date range: 09/30/1994 - 05/25/2021*



Source: DealStats

**Count:** 83

**Min:** 1.0

**Max:** 562.5

**Mean:** 31.56

**Median:** 10.27

*Price to EBIT = Selling Price/Operating Profit*

*Date range: 09/30/1994 - 05/25/2021*

**Selling Price, also known as MVIC (Market Value of Invested Capital)** is the total consideration paid to the seller and includes any cash, notes and/or securities that were used as a form of payment plus any interest-bearing liabilities assumed by the buyer. The MVIC price includes the noncomplete value and the assumption of interest-bearing liabilities and excludes (1) the real estate value and (2) any earnouts (because they have not yet been earned, and they may not be earned) and (3) the employment/consulting agreement values. In an Asset Sale, the assumption is that all or substantially all operating assets are transferred in the sale. In an Asset Sale, the MVIC may or may not include all current assets, non-current assets and current liabilities (liabilities are typically not transferred in an asset sale).

Source: DealStats 2019 (Portland, OR; Business Valuation Resources LLC). Used with permission. DealStats is available at <https://www.bvresources.com/learn/dealstats>

# Financial Benchmarks

The following financial benchmark data is based on annual financial statements submitted by member institutions of the Risk Management Association from Q2 of the first year listed through Q1 of the following year.

## Financial Ratios (Data Processing & Hosting , Industry-wide)

MEASURE	2018-19	2019-20	2020-21
Current Ratio <span>?</span>	1.28	1.32	1.20
Quick Ratio <span>?</span>	1.05	1.11	1.03
Days Inventory <span>?</span>	10.41	7.87	6.34
Days Receivables <span>?</span>	55	49	47
Days Payables <span>?</span>	43.35	38.44	25.7
Pre-tax Return on Revenue <span>?</span>	2.93%	5.37%	5.26%
Pre-tax Return on Assets <span>?</span>	3.42%	5.73%	5.87%
Pre-tax Return on Net Worth <span>?</span>	10.90%	17.90%	20.76%
Interest Coverage <span>?</span>	5.60	6.98	7.29
Current Liabilities to Net Worth <span>?</span>	.97	.80	.94
Long Term Liabilities to Net Worth <span>?</span>	1.22	1.32	1.6
Total Liabilities to Net Worth <span>?</span>	2.19	2.12	2.53
<i>Number of Firms Analyzed</i>	226	169	120

## Income Statement (Data Processing & Hosting , Industry-wide)

ITEM	2018-19	2019-20	2020-21
Revenue	100.0%	100.0%	100.0%
Cost of Sales	48.7%	45.98%	50.27%
Gross Margin	51.3%	54.02%	49.73%
Officers Compensation	1.2%	1.23%	0.73%
Salaries-Wages	18.09%	17.78%	11.74%
Rent	1.38%	1.4%	1.57%
Taxes Paid	1.47%	1.49%	1.44%
Advertising	2.81%	3.02%	2.08%
Benefits-Pensions	1.63%	1.64%	1.68%
<i>Number of Firms Analyzed</i>	226	169	120

ITEM	2018-19	2019-20	2020-21
Repairs	0.5%	0.52%	0.61%
Bad Debt	0.23%	0.23%	0.35%
Other SG&A Expenses	10.91%	9.22%	13.87%
EBITDA	13.07%	17.5%	15.67%
Amortization-Depreciation	6.29%	7.23%	6.34%
Operating Expenses	44.51%	43.76%	40.41%
Operating Income	6.79%	10.26%	9.32%
Interest Expense	2.81%	3.08%	2.45%
Other Income	-0.02%	0.26%	0.26%
Pre-tax Net Profit	4.0%	6.92%	6.61%
Income Tax	-0.31%	0.61%	-0.03%
After Tax Net Profit	4.31%	6.31%	6.64%
<i>Number of Firms Analyzed</i>	226	169	120

## Balance Sheet (Data Processing & Hosting , Industry-wide)

ASSETS	2018-19	2019-20	2020-21
Cash	20.54%	22.52%	27.44%
Receivables	29.68%	22.03%	23.29%
Inventory	1.74%	2.1%	2.58%
Other Current Assets	4.91%	4.99%	3.35%
Total Current Assets	56.87%	51.64%	56.65%
Net Fixed Assets	21.25%	26.03%	20.92%
Net Intangible Assets	13.51%	14.11%	12.28%
Other Non-Current Assets	8.39%	8.2%	10.17%
<i>Total Assets</i>	100.0%	100.0%	100.0%
LIABILITIES			
Accounts Payable	12.24%	9.13%	8.58%
Loans/Notes Payable	16.42%	10.52%	11.89%
Other Current Liabilities	23.58%	16.89%	20.37%
<i>Number of Firms Analyzed</i>	226	169	120

**LIABILITIES**

Total Current Liabilities	52.23%	36.55%	40.84%
Total Long Term Liabilities	35.7%	31.89%	33.04%
Total Liabilities	87.93%	68.43%	73.88%
Net Worth	12.01%	31.57%	26.23%
Total Liabilities & Net Worth	100.0%	100.0%	100.0%
<i>Number of Firms Analyzed</i>	<i>226</i>	<i>169</i>	<i>120</i>

Vertical IQ financial benchmark data is based on data provided by the Risk Management Association (RMA) and Powerlytics, Inc. RMA's Annual Statement Studies provide comparative industry financial benchmarks based on financial statements of small and medium business clients of RMA's member institutions. Additional detail on income statement line items is provided using Powerlytics financial benchmarks, which are based on reporting submitted to the IRS. Additional detail on these data sources can be found at [RMA](#) and [Powerlytics](#).

# Bank Product Usage

## Top Bank Products Used by Data Processing & Hosting

The following table provides the frequency of bank product usage by Data Processing & Hosting with less than \$10 million in annual revenue. It is provided by Barlow Research Associates, Inc., the premier market research firm in the financial services industry.

BANK PRODUCT	% OF FIRMS
Business checking account services	100.0
Business debit card or business check card	88.0
Point-of-sale credit card processing	80.0
Wire transfer services	78.0
Business credit card issued in your company's name (Visa, MasterCard, Amex, etc.)	74.0
Remote deposit capture (scanning checks at your office or by mobile device for electronic deposit)	56.0
Automated clearing house services (ACH)	52.0
Business savings or money market account	47.0
Overdraft protection for business checking	43.0
Electronic payments initiated through the Internet (Bill Payment)	34.0
SBA loans	32.0
Credit lines secured by receivables, inventory, property or other assets	29.0
Money market mutual funds or short-term investments	15.0
Unsecured short-term loans or working capital line of credit (less than one year)	10.0
Certificates of deposit	10.0
Company sponsored 401(k), SEP, pension or profit sharing plan	9.0
Account reconciliation processing (ARP)	9.0
Payroll processing	9.0
Term loans or equipment financing (one year +)	6.0
Equipment leasing	5.0
Commercial real estate mortgage (investment property)	5.0
Commercial real estate mortgage	5.0
Commercial real estate mortgage (company occupied building)	4.0
Accounts receivable collection (lockbox)	4.0
International (foreign exchange, import/export letters of credit)	2.0
Overnight investment or sweep accounts	0.0



Barlow's Small Business Banking program is a multi-client research program sponsored by leading banks. Each quarter, a stratified random sample of businesses throughout the United States with sales between \$100,000 to \$10 million compiled from an independent list provider are invited to participate in a comprehensive banking survey of over 100 questions. The results measure channel adoption, bank satisfaction, brand power, account management, service quality, business product usage and the selling abilities of leading providers. The results in this chapter are calculated directly from the business product usage section and represent usage for the average small business (\$100K-\$10MM).

For more information on Barlow's banking research, go to <http://www.barlowresearch.com/>

# Quarterly Insight

1st Quarter 2022

## **The Metaverse Will Be Another Driver of Industry Growth**

Many industry experts say that increasing use of the Metaverse will boost data center construction. The Metaverse is a digital space where participants simulate real-life activities via the Internet. The infrastructure to support a concept as bold as the Metaverse cannot be limited to a small number of physical locations, according to Phillip Marangella of edge data center provider EdgeConneX. It needs to be extensive even as it needs to feel local and exhibit ultra-low latency. It will also mean an increased focus on enhancing network connectivity, reducing latency, additional power allocation, more efficient data center cooling, and above all – scalability and the ability to expand on demand.

4th Quarter 2021

## **Data Center Water Use Is A Growing Concern**

Opposition to new data center construction is increasing, particularly in western states where water shortages are intensifying. Many data centers use water to cool equipment. Water is either sprayed into air flowing past the computers and other equipment, or evaporated to transfer heat away from the equipment. Protest against new data centers have already occurred in some communities which may be why, in the past, Google has considered its usage of water to be a trade secret. Similar concerns led to a temporary ban on new data centers in The Netherlands, and France is in the process of passing new laws to require more transparency. Some industry experts say that companies are not pricing water risk into their calculations when picking locations for data centers. A lower price does not necessarily mean lower risk. When Microsoft assessed its water footprint at a data center in San Antonio, TX, it found the true cost of water was 11 times more than it was paying.

3rd Quarter 2021

## **New Connecticut Law Includes Data Center Tax Exemption**

A new Connecticut law grants a 20-year sales, use, and property tax exemption for data centers with an investment of \$200 million and a 30-year sales, use, and property tax exemption with an investment of \$400 million. Some analysts say that the legislation, which was under development for several years, may have gotten a boost from New Jersey's idea to raise nearly \$10 billion in revenue by taxing financial transactions. New Jersey hosts data centers for major stock exchanges and financial companies, but the data centers also act as a point-of-sale for stock trades and would be subject to the New Jersey tax.

2nd Quarter 2021

## **Firm Combines Data Centers with Water Infrastructure to Save Energy**

California sustainable water technology firm Tomorrow Water has proposed building data centers at water treatment plants in cities to reduce the environmental impact of both. The company has a process that saves space by replacing settlement tanks at the sewage plant with biological reactors. Wastewater treatment plants, biogas plants, and data centers are linked together and use AI to increase the efficiency of the entire process throughout the entire value-chain. Waste heat from systems that cool data centers can warm the biological systems to help dry sludge, for example. Parent company BKT demonstrated proof of concept at the Jungnang Water Reclamation Center in South Korea three years ago, cutting its energy resource footprint in half after the process was installed.

1st Quarter 2021

## **Capacity Leased Surged in 2020**

Almost 700 megawatts of capacity was leased from multi-tenant data center operators in 2020, more than triple the amount leased in

2019, according to North American Data Centers. Data center lease capacity is increasingly measured by energy consumption rather than another metric, like square feet of computing space. Microsoft, Facebook, and TikTok owner ByteDance were the top lessors of data center capacity last year. The biggest data center provider beneficiaries of leasing in 2020 were cloudHQ, Aligned Energy, and Digital Realty Trust.

## 4th Quarter 2020

### **Stakeholders Spar Over Proposed Data Center Transaction Taxes**

Nasdaq and the New York Stock Exchange may abandon their New Jersey data centers over a state proposal to tax electronic trades. Experts say the proposal is intended to close a massive gap in the state budget caused by the pandemic-induced economic crisis. New Jersey Governor Phil Murphy said that the state's dialogue with the industry has just begun, and that the tax isn't imminent. Several firms concerned that other states with budget shortfalls may follow New Jersey's lead have begun banding together to fight any additional proposals, with the threat that electronic operations are flexible enough to avoid new taxes.

## 3rd Quarter 2020

### **Effort to Remove Chinese Gear Expands**

The Trump administration is expanding its 'Clean Network' program that is intended to remove Chinese networking gear used in the US and by its allies. The program, which initially focused on 5G wireless equipment, will be expanded to carriers, app stores, apps, cloud systems, and submarine cables. More than thirty countries and territories are now "Clean Countries," according to US Secretary of State Mike Pompeo, because they have committed to exclusively using trusted vendors in their Clean Networks.

## 2nd Quarter 2020

### **Growth, Consolidation Continue Despite Pandemic**

Data center providers say that facility construction continues to move forward, with only a handful of projects slowed or halted by COVID-19 safety concerns. Industry analysts expect that staffing shortages may persist over time, however, creating challenges for data center construction projects and the supply chain supporting them. Data center owners around the world are likely to slow expansion plans due to the coronavirus pandemic but the industry will grow 3% year-on-year in 2020, according to Business Wire. Data center merger and acquisition (M&A) activity hasn't been slowed by the coronavirus outbreak. The value of data center M&A deals closed within the first four months of 2020 exceeds the total value for all of 2019, according to Synergy Research Group. A total of 28 data center-oriented M&A deals closed by the end of April with a total valuation of approximately \$15 billion. There are 17 more agreed deals awaiting closure and several potential multi-billion-dollar deals, according to Synergy.

# Industry Terms

## **ASP**

Application Service Provider (or Provisioning): A vendor who provides software applications via a SaaS model.

## **Business Process Management**

The use of technology to automate and improve business processes.

## **Cloud Computing**

Providing software applications, computing power, and data storage on demand via the Internet for a usage fee.

## **Colocation**

Hosting company rents space in its data center in which a customer places its own equipment. Customer is typically responsible for managing the equipment.

## **Dedicated Servers**

Hosting company charges a monthly fee to provide servers and other equipment dedicated to a single customer's use. The hosting company typically manages the equipment as part of the monthly fee.

## **IaaS**

Infrastructure as a Service: Another term for cloud computing.

## **SaaS**

Software as a Service: Delivery of software applications via the Internet for a monthly fee.

# Web Links

## [Computerworld - Data Center](#)

News and trends in IT outsourcing.

## [InfoWorld](#)

News and articles on IT trends and technologies.

## [My Hosting News.com](#)

News and articles about the web hosting industry.

## [Web Hosting Talk](#)

Global news and feature reports on the web hosting industry.

# Related Profiles

## Computer & Peripheral Manufacturers

NAICS: 3341 SIC: 357x

## Computer Programming Services

NAICS: 541511 SIC: 7371

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