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# Exclusive: Rackspace’s interim CEO to employees on company financials, future

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Rackspace Hosting Inc.'s interim CEO wants the company's employees to know — in the wake of its recent CEO's resignation — that it's doing fine. In particular, he said its managed cloud support for businesses that use other companies' cloud infrastructure, such as Microsoft Azure and Amazon Web Services, is on track.

The company's "Fanatical Support" business line associated with Azure and AWS — which it calls FAWS and Fanatical Azure — is projected to generate \$59 million in 2017, according to an email sent May 3 by Rackspace President Jeff Cotten, who will replace CEO Taylor Rhodes, at least on an interim basis, after Rhodes leaves on May 16.

"We beat our [first-quarter 2017] plan across nearly every financial metric," Cotten said in his email, which was obtained by the Business Journal, noting it was the first time in six years that the company had done so.

Cotten's email to Rackspace employees — or Rackers, as they're called internally — offers a rare glimpse inside the company and its new direction, now that the San Antonio-based company is privately owned by a group of investors that includes New York City-based Apollo Global Management LLC and Searchlight Capital Partners LP.

There was one area that Cotten singled out as needing improvement, saying the company fell short of its first-quarter plan in single-tenant bookings, which refers to when a company buys an entire cluster of servers for its cloud infrastructure. If Rackspace was "winning its fair share" of that market, it would mean about \$500,000 more each month in new customers, Cotten said.

As a result, Rackspace's 2017 goals include "restoring growth" in the company's single-tenant cloud



COURTESY IMAGE  
Jeff Cotten will be the interim CEO of Rackspace Hosting Inc. in San Antonio and president of the company when Taylor Rhodes leaves on May 16.

hosting business and "staying in front of the jet stream of growth in managed public cloud services" — aka the Amazon and Microsoft deals.

Meanwhile, Rackspace has plans for a potential acquisition, Cotten said, though he didn't offer further detail. Rackspace representatives declined comment about the acquisition and other questions submitted to the company for this story.

Cotten said Apollo wants the company to invest in existing businesses and that Rackspace has plans to take unexpected revenue from its OpenStack public cloud — which he said is declining, but slower than expected — and put it to work.

"We are using the cash flow from this business to invest in higher-growth areas where we can win over the long term," he said.

In another positive metrics, customer churn hit its lowest mark in more than a year while Rackspace's net promoter score for single-tenant customers remains relatively high, Cotten said. He also mentioned there will be some organizational and leadership changes in the coming weeks. Rhodes is resigning as of May 16, and Cotten will be the interim CEO until an executive search is completed.

Rackspace is expected to roll out Fanatical Support for Google's cloud in July. Rackspace hired Bain and Co. and Management Insight Technologies as consultants in an effort to "better understand exactly which [single-tenant] buyers we should target with which offers."

Cotten acknowledged that employee morale is dragging at the local tech company amid the sale to private equity and recent layoffs.

"We're on a winning path, and frankly I think we need to start acting like it," he said. "We're very hard on ourselves around here."

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