



IXEurope plc

Case Study

Introduction

IX Europe is a datacentre solutions provider, baby-sitting the hardware and systems of more than 800 blue-chip clients including the largest European banks, corporates and system integrators. As of September 2007, the Group had 14 datacentres in four European countries: the UK, Germany, France and Switzerland.

Milestone invested consistently in IX Europe over an 8-year period resulting in a return on investment of approximately 2.7x, an IRR of 15.5% in a sector where numerous European and American investors have lost hundreds of millions of euros between 2000 and 2007.

Background

IX Europe was introduced to the Milestone team in January 1999 soon after its inception by its two co-founders, Guy Willner and Christophe de Buchet, who had identified the opportunity to create an independent provider of datacentre space for a variety of enterprise, internet and telecoms customers and were seeking advice on a start-up basis. Milestone agreed to back the team and following the appointment of Sir Anthony Cleaver as Chairman and co-investor, organised the Group's first funding round in the summer of 1999 with £10 million of equity.

The initial funding was used to secure the lease on the Group's first datacentre site, in the City of London, which subsequently opened for business later on that year. Milestone was also instrumental in helping the Group to raise a further £35m in 2000, whilst investing £27m in the Group over the 2001-2002 period.

Key dates for IX Europe include

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| 1999 | Guy Willner and Christophe de Buchet approach Milestone, Sir Anthony Cleaver joined the Group as Chairman |
| 1999 | First round of fund-raising (£10m) |
| 1999 | First datacentre opened in the City of London (London 1) |
| 2000 | Datacentres opened in Frankfurt (Frankfurt 1), in Zurich (Zurich 1), in Paris and in the Heathrow area of London (London 2) |
| 2000 | £35m fund-raising |
| 2000 | ISO 9001:2000 accreditation achieved for the first time |
| 2001 | Datacentres opened in Dusseldorf and Zurich (Zurich 2) |
| 2001-2002 | Milestone invests £27m/€43m |

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| 2002 | Number 1 in the Sunday Times techTrack 100, signed up 200 th customer |
| 2004 | Acquisition of Geneva datacentre |
| 2004 | Karen Bach appointed CFO |
| 2005 | Acquisition of datacentres in West London (London 3) and Frankfurt (Frankfurt 2) and acquisition of GIC, and German provider of business services |
| 2006 | Pre-IPO debt funding raises £12.5m |
| 2006 | Successful flotation of IX on London's AIM Market raising £12.5m |
| 2007 | Secondary placing raises £5.1m |
| | Sale of the Company for £270m to Equinix Inc. |

Team

The Milestone team led by Erick Rinner was involved with IX Europe since the Company was founded, and Erick remained on the Company's Board as non-executive director after the IPO. In addition, Milestone helped strengthen the Board with the additions of Sir Anthony Cleaver as Chairman and Richard Mead as non-executive director.

The Milestone team have been instrumental in raising more than €150m of equity and debt funding for the Company over 7 years as well as in helping to drive strategy and growth, and win new business.

Strategy

- IX Europe targeted their offering specifically at the under-serviced corporate client arena, providing a solid client base, thus avoiding over reliance on the over-serviced ISP/Telco market unlike many of its peers
- The business model is predicated upon securing long term customer contracts in order to provide a growing base of recurring revenues and to leverage a relatively fixed overhead cost base
- The Group has made use of a targeted buy and build strategy, making selective acquisitions of distressed assets - IX's Munich and Frankfurt sites were bought for extremely attractive prices - as well as seeking growth organically through new-build sites
- The Group has retained a focus on its core business of providing datacentre services, but combined this with appropriate value-added services.
- IX never raised debt during the dot-com boom which meant that as an equity funded business it survived the 2000-2003 dotcom crash.

Market drivers

Demand for datacentre capacity had increased for a number of reasons, providing a strong background for the IX story:

- Large financial services companies such as banks and insurance businesses are increasingly seeking larger and more resilient datacentre facilities to provide primary hosting, business continuity and disaster recovery services, a trend fuelled by recent banking regulation including the Basel II Capital Accord and the US Sarbanes-Oxley Act 2002, which required financial services companies to provide off-site back up facilities.
- In addition to the financial services arena, the boards of many enterprises are making investments in monitoring and upgrading their security, resilience, back-up and disaster recovery capabilities.
- Greater broadband penetration has lead to increasingly sophisticated and bandwidth-hungry internet applications
- Enterprise customers increasingly seeking to outsource datacentre requirements to third parties in order both to reduce their initial capital investment and to increase the quality of their IT infrastructure

Exit

A small placing for £12.5m at the time of IX's IPO was completed in April 2006, with the shares being priced at 22p on London's Alternative Investment Market ("AIM"). The placing raised further growth capital for the Group and Milestone did not sell any shares, retaining a substantial shareholding in the Group after the IPO.

Following the acquisition of IX Europe by Equinix Inc. at 140p per share announced in July 2007, Milestone received a sum of €117.0m on 28 September 2007, giving a return of 2.8x in Sterling Pounds and 2.7x in Euros, on the €44.2m invested by Milestone over its 8 years of involvement with IX.

Conclusion

- Milestone identified a value proposition that continued to be profitable despite the ending of the "internet bubble" boom in technology companies in 2000.
- Milestone invested a great deal of time in both identifying and working hand in hand with the management team to devise a realistic business plan, whilst focusing on key objectives and KPIs.
- Milestone backed the management team in its buy-and-build strategy, both helping to fund and to negotiate terms for acquisitions.
- Milestone demonstrated its ability to secure additional funds from co-investors and financial institutions when its own ability to fund the business was outgrown.
- Milestone's own Partners were heavily committed to the project, with two nominees on IX's board, helping to keep the management team together and focussed on IX's achieving its strategic goals.

- Milestone assisted with keeping debt low, controlling costs and ensuring the management team understood the importance of profitability through implementing monthly cost base reviews
- Milestone assisted with finding potential new business leads and with pitching the IX offering to convert leads into customers.
- Milestone assisted IX with finding the right strategic partner, building an exit strategic over 18 months from an IPO on AIM in London to a successful sale to Equinix Inc. in the US.

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