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Class Information

Date

International money & Finance - Analysis Telecity PLC

Introduction

Telecity Group a Frankfurt based company operates highly connected facilities in strategic internet hub cities across Europe. The presence of multinational and international communication services operators in the company's data center provides a wide range of connectivity options for customers. The data centers are places in which separate network that makes up the internet meet and where bandwidth intensive applications, content and information and cloud services are hosted. (Bragg)

Data centers are buildings that have within them electrical and mechanical infrastructure that creates an environment in which computing and telecommunication equipment can run without interruption as such they provide residential power supplies and cooling to these equipments.

Size of the company

At the end of the year 2013, the company has 202249 equity shares outstanding. The share price as on February 2013 was 8.89 Pounds per share. The goodwill of the company is valued at 42454000 Pounds as on December 31st 2013. The total asset of the company as on 31st December 2013 is £889.752m.

Turnover

The segment wise sales for the year ended 31st December 2013 were 14390100 pounds in UK, rest of Europe 181649000 pounds, totaling to 325550000 pounds. The corresponding figure for the year ended 31st December 2012 was in Uk 137487000 pounds and rest of Europe 145463000 pounds totaling to 282950000 pounds and for the year ended December 31st 2011 segment wise revenue was Uk 117608000 pounds, rest of Europe 122210000 pounds totaling to 239808000 pounds. (Gonedes and Dopuch)

Customer wise revenue share for the year were:

Cloud and hosting- 11%

Connectivity- 36%

Internet Content- 19%

Financial- 15%

System Integrators/IP- 14%

Others- 5%

Telecity group total revenue growth was 15.1%. Segment wise revenue increased for the year in UK was 4.7% (137.5 Million Pounds to 143.9 Million Pounds) and the rest of the world, the figure is 24.9 %(145.5 Million Pounds to 181.6 Million Pounds). The increase in revenue was supported by the acquisition in current and prior period, and movements in foreign exchange rates. The acquisitions in Turkey, Bulgaria and Poland during the year contributed to 4.2 Million

Pounds to current year revenue. On an organic currency-neutral basis, revenue increased by 8.6%.

Location of Markets

The group is a Frankfurt based company. In addition to Germany, other geographical of the group's market are Sweden, Finland, Ireland, UK, Netherland, France, and Italy. In the year 2013, the company entered into three new European markets, namely Poland, Bulgaria and Turkey. Telecity Group has 38 operational data centers in key internet hub cities across Europe. The group established market leading position in Istanbul, Sofia and Warsaw through the acquisition of Sadecel Hosting, 3DC and PLIX. These markets promise strong demand due to their growing domestic digital economies, demographics and geographic locations, which make them natural national and regional internet hub.

Other Relevant Information

(i) Data Centre Capacity: The Company's growth has been enabled by the continued introduction of new data center capacity. The company in line with demand requirements of the market by building new data centers and expanding existing facilities. The Group's data centers offer rich levels of connectivity to bandwidth-intensive customer infrastructure. Connected data centers attract organizations because of the choice of connectivity, which in turn reduces costs and improves network performance and efficiency. (Hallman and Rosenbloom)

(ii) Group business Model: The group aims to deliver controlled, sustainable and profitable growth by opening and selling data center capacity in the strategic internet economies hub, in Europe which enables the company to meet demand for highly connected and resilient capacity that is driven by the growth in the digital economy.

(iii)Telecity Group's role in the industry: Telecity group operates highly connected facilities in strategic internal hub across Europe. (Helfert)

Financial Strength

(a) Important Financial Variables

The important financial variables reflective of the group's financial strength are enumerated below;

(i) Revenue: Total revenue of the group for the year ended on December 31, 2013 is £325.5 million, which is an increase of £42.6 million i.e. 15.05% from the revenue of the previous year

(ii) Cost of Sales: Total cost of sales of the group for the year ended on December 31, 2013 is £ 138.89 million that is an increase of £ 18.7 million i.e. 15.55% from the previous year

(iii) Operating Profit: The Group earned an operating profit of £ 97.35 million in 2013, which is an increase of £ 13.125 million i.e. 15.58% from the previous year

(iv) Equity Capital: The Equity Capital of the company as on December 31, 2013 is £ 173.613 million and in the previous year it was £ 187.560 million

(v) Assets: Total assets of the group for the year ended December 31, 2013 are £ 187.87 million, and in the previous year it was £ 187.56 million. i.e. during the year 2013 net asset of the company increased by £0.22 million i.e. 0.11 increase

(vi) Investment: Investment of the group in the year ended December 31, 2013 is £187.78 million and in the previous year it was £ 184.69 million that is an increase of £ 3.09 million that is 1.67% addition. (Helfert and Helfert)

(vii) Earnings Per Share(EPS) : Adjusted diluted EPS is 36.5p and in the previous year 31.0p that is 5.5p or 17.74% increase.

(viii) Return on Capital: Return on Capital employed in the year ended December 31, 2013 is 15.2%, while it was 16.4% in the previous year i.e. is a decrease 1.2% as compared to the previous year.

(ix) Operating Profit: Operating Profit as a percentage of revenue is 29.90% in 2013 whereas it was 29.77% in the previous year. (Palepu, Bernard and Healy)

Trend Analysis

Trend of the company during the period 2010 to 2013

Particulars	**2013**	**2012**	**2011**	**2010**	**2009**
	£ '000	**£ '000**	**£ '000**	**£ '000**	**£ '000**
Revenue	325550	282950	239818	196397	169400
Operating Profit	97353	84228	65359	55173	39102
Cost of Sales	1	1	1	8	8

	38899	20199	05117	6624	0656
Investment	1 87786	1 84691	1 81024	1 78003	1 75583
Assets	9 08911	8 01153	6 30092	4 36444	3 92535
Equity	4 05000	4 03000	3 98000	3 96000	2 21019
Capital Employed	1 87786	1 87560	1 86775	1 82028	1 79608
EPS basic	3 6.7	3 1.7	2 4.7	2 2.2	1 6.4
EPS Diluted	3 6.5	3 1	2 4.1	2 1.7	1 6.2
Debts	3 74723	3 21618	2 28782	9 6425	9 3297
Operating profit as Percentage of sales %	2 9.9	2 9.77	2 7.25	2 8.09	2 3.08%
Debt equity ratio%	0 .93	0 .8	0 .57	0 .24	0 .42
Return on investment(ROI)%	5 1.84	4 5.6	3 6.11	3 1	2 2.27%
Return on Equity(ROE)%	2	2	1	1	1

	4.04	0.9	6.42	3.93	7.69%
Return on Capital Employed(ROCE)%	1 2.49	1 1.62	1 0.43	1 1.2	1 9%
Return on Net Asset(ROA)%	1 0.71	1 0.51	1 0.37	1 2.64	2 0%

3 b) Trend Analysis: Analysis of the financial figures of the company during the period 2010 to 2013 reveals the following.

1) Revenue: Revenue has steadily increased during the period. i.e. it reached a peak in 2013. In 2009 total revenue was £169.4, in 2010 the revenue of the organization was 196397. The percentage increase of revenue in 2013 is 15.5% and in 2012, it increased by 17.98% and increase in 2011 is 22.10%, increase in revenue in 2010 was 15.93%. Thus, it can be observed that although revenue has increased steadily, it has increased at a decreasing rate. (Rees)

2) Operating profit: A steady increase in operating profit has been noticed. The rate of increase in 2013 is 15.58%, preceded by 28.86% in 2012 and 18.46% in 2011 and 41.1% in 2010. Growth of operating profit was higher in 2012 as compared in 2013. It should be noted that operating profit has increased, but the rate of growth has fallen in 2013.

3) Cost of sales: it might be observed it has steadily increased during the period. The increase in the percentage, in 2013 is 15.55%, preceded by 14.34% and 21.34% and 7.40% in 2012, 2011 and 2010 respectively. It should be noted that there has been a marginal increase in the rate of increase in cost of sales in 2013; it registers a

significant fall in 2012 as compared to 2011. Thus, it can be said that the company is utilizing resources efficiency and enjoying economies of scale.

4) Return on Investment: The company is generating a steadily increase in return on investment is highly commendable and points of the efficiency of management.

5) Return on Net Asset: the Company's earning a return on assets is 10.71% in 2013, preceded by 10.51%, 10.37%, 12.64%, and 20.00% in 2012, 2011, 2010, and 2009 respectively. Return on assets signifies how efficiently the assets have been used and justify the allocation of scarce resources. More than 10% return on investment is healthy by any means and signifies operating efficiency of the group.

6) Earnings per Share for basic and diluted have increased steadily.

Overall the company is doing well as per the data revealed in the financial reports and statements during the subject period. The performance of the company has also been reflected in the stock market.

Major Activities

(i) Expansion: The Company is adding capacity in line with demand requirements by building new data center and expanding existing facilities. The group sales new capacity to customers as they seek to expand the foot prints of their computer hardware within the data centers. To enable fluid customer expansion, new capacity is designed and planned to be brought online as requested. This expansion program is being contemplated by acquisition in new and expanding market locations enabling the company to capture revenue more quickly than it would to create the highly connected data center hubs on an organic basis.

(ii) Entry into Markets: the company entered into three new markets in Europe during 2013 through the acquisitions of Sadecel Hosting in Istanbul, 3DC in Sofia and PLIX in Warsaw in the countries of Turkey, Bulgaria and Poland. The market promises strong demand growth due to their domestic digital economies, demographics and geographic locations, which make them natural national and regional internet hubs. The integration of this business is processing well, and it's expected that the newly acquired business would make a significant contribution in the medium term which will be both through the growth that they deliver locally and also new expertise that they have brought to the group. In particular, the knowledge that has come with the ownership polish internet exchange which is a part of PLIX will help the company to build its European connectivity platform. (Rodgers)

It would be well to mention that the company's acquisitions in Helsinki, in the year 2012 are now fully integrated with the Telecity Group fifth site in the city Hansa being opened by the UK business secretary.

(iii)Opening new capacity: One an organic basis the company opened new capacity across Europe during the year 2013 which has been associated existing side where the connectivity is already high, and the company has growing demand from 'Eco-system' interconnected customers. The company also worked to ensure that the customers offer remain core to the digital economy as it's evolves with, e.g. the launch of companies new cloud IX platform. This connectivity would serve the customer in a simple, flexible and cost effective way.

Developments

(i) Market leading position established in Istanbul Sofia Warsaw through the acquisition of Sadecel Hosting, 3DC and PLIX. Adjusted EBITDA margin increase by 130bps to 47.1% it was 95.8 % in 2012 adjusted EBITDA increased by 18.4% to £153.2 million it was £129.5 million in 2012. Adjusted EBITDA increases by 18% to £107.5 million in 2012 it were £ 91.0 million. Final dividend increased by 40% to 7p per share. The company continued to bring capacity online across Europe in demand of customers opening 124 megawatts in total in addition to this the company is committed to operating the data centers to the highest standards. In the year 2013, the company maintained certification in the wide range of areas including information security management, quality management, health and safety management. They also rolled out business continuity management progress which is suppose to continue in the coming year

The companies first green house gas emission report is in line with the UK mandatory report regulations.

(ii) In the 15 year history, the company has become the leader of European datacenter market. The company has grown both organically and acquisition and this growth have been built on the core value of customer satisfaction, existence in data center integrity of the work.

b) Key Areas of Strength and weakness.

Strength

The company recognizes the skill, knowledge and commitment of the workers are the vital factors in the continuing success of the company. The company significantly invests in skill and knowledge development of the work force so that the work force can operate at an optimum level. The company provides a good support system to the workforce in terms of training and career development programs like exposure to a new experience, internal transfer and promotions and also creates environment where the workforce can feel valued and rewarded for the contribution.

The policy and process of the company are regularly reviewed to ensure that the set high standard is being maintained. The company continuously investigate into ways by which diversity can be attracted to the organization with a focus on merits based selection and promotions.

The company has a huge market base in Germany and rest of the world with result addition of data center market in Istanbul, Sofia and Warsaw. The company is experiencing along growth in Amsterdam, Stock home, and Dublin and also the company enjoys a strong position in Frankfurt, Helsinki, Milan, Paris and Sofia.

The group has recently secured permissions and agreement to expand its key Amsterdam one site (AMS1) and already secured an order for capacity to run a super computer for academic research purposes. As a result of these the total announced capacity in Amsterdam has increased by 7.7 megawatts. The total announced customers power rest of Europe division has increased to 97.2 megawatts.

The company's recent acquisition of Sadecel Hosting, 3DC and PLIX has significantly added the company's communication capacity. The PLIX internet exchange is experiencing strong growth and it's one of the largest exchange in Europe. The physical presence in Poland has been an addition to the company's growth potential as Poland is fast becoming an extremely important European and international internet hub.

Geographic Locations

The company is operating in the domestic market, and important international market hubs spread across UK, France, Italy, Poland, Turkey, Sweden, Denmark and Netherlands. (Vogel)

Conclusion

Telecity Group is a well-structured, efficiently managed, growth oriented data center company. It uses state of the art technology, and its market spreads over major internet hubs in Europe. The company is experiencing a steady growth in terms of sales, operation profit, capital, asset utilization.

The company has the skill and knowledge based human resources, and the company gives special attention on performance enhancement of the work force. The companies indulging in the timely acquisition of growth oriented data center business and thereby increasing its connectivity. The company has highly motivated, and creative management taking finely management decisions and getting it implemented through careful planning and execution.

The company resource utilization is high appreciative and reflective of preserve in shareholder's interest as well as ensuring in growth for the company.

The figure disclosed in the financial statement and reports are quite optimistic and reflective of potential in attending the growth objective of the company. The interest of shareholders of the company is well protected, and the company promises to continue good return to the shareholder money and create value of the company.

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