

POWER PARTNERSHIPS

Data Sales Co.

FireHost

THE LEASE FINANCING DEAL **By Wayne Epperson**

Since launching its secured cloud hosting solution, FireHost says its monthly revenues are up 327 percent. Sustaining that kind of growth can be difficult for a hosting company without a means to finance the purchase of equipment, which FireHost found in leasing provider Data Sales Co.

The first handshake between Chris Drake and Dan Gannon took place one fall day in 2010 at a hosting industry trade-show. The networking opportunity time gave the men a chance to hear about each other's business interests.

Drake talked about the rapid growth of FireHost, a Dallas-area company he founded to provide secure cloud hosting for firms needing to meet specific compliance and brand protection requirements.

Gannon, a lease program manager at IT asset leasing company Data Sales, explored how hardware leasing could benefit FireHost's continual need for capital expense for servers and networking gear.

Gannon learned FireHost was in the process of finalizing a capital plan and budget, and was determining the right combination of lease debt and equity it would need. He determined that using lease debt would be preferred, as it was non-dilutive financing that could be used for the capex on equipment. FireHost already had some small direct lease lines with various vendors, but needed a much larger line because of the demands created by its rapid growth.

By December, that first meeting of months earlier had grown into a partnership with Data Sales providing FireHost with a \$1.6 million lease line.

"We talked to Dan and we talked to a number of other players, large and small, and Data Sales brought the best package, and has been able to grow with us. The attention we got from Data Sales exceeded any attention we got from anywhere else, and they provided what we needed to achieve as an earlier-stage company," says Bruce MacFadyen, COO of FireHost.

Leasing is a money business that's fairly commoditized, and what differentiates leasing providers, from MacFadyen's perspective, comes down to their individual level of service.

"When you are growing very quickly, you want somebody easy to work with; there doesn't need to be a lot of brain damage in that process. A lot of leasing companies try to explain different values they can offer customers, but Data Sales didn't make any real large claims, it just focused on driving good leasing decisions," MacFadyen says.

FireHost has done more than 20 lease schedules with Data Sales. Each lease is bundled for a period of time, usually a month or so, and covers hard assets, generally servers, storage, and network security gear. The cumulative total of leases with Data Sales so far has reached around \$5 million, MacFadyen says.

The business model that Drake fashioned for his start-up positioned FireHost to focus on delivering security compliance in the public cloud model, and included fully managed support.

With the lease lines from Data Sales, FireHost has grown globally and now serves customers from expanded operations in Dallas, Phoenix, London and Amsterdam. It offers security and performance solutions to meet companies' compliance requirements under HIPAA, PCI, ISO and a number of others. The customer base is heavy with companies focused on health care with its mandated privacy issues, and e-commerce that has to meet Payment Card Industry standards.

The hosting industry in general is growing around 20 percent a year with cloud hosting up 60-70 percent, according to some analysts. Not many companies fall into the narrowly focused secure cloud segment, so specific com-

parative growth numbers are hard to come by.

FireHost has scaled much faster than the industry rate for even cloud hosting. Monthly revenues, according to MacFadyen, are up 327 percent since the company's first lease with Data Sales.

Access to capital is the lifeblood of any company in any industry, and lease financing is one source of capital for hosting companies evaluating how to finance IT hardware, says Robert J. Breckner, vice president of Data Sales.

Breckner says leasing is an option that many hosts overlook or do not know is available to them. With an asset based lease, the equipment is the security, and there is less dependence on historical financial performance or personal guarantees. A lease can help preserve cash flow or credit lines by converting capital expense into operating expense, a process that levels out payments, provides predictability and stability in funding daily operations.

The lease benefit is magnified when compared to the cost of either venture capital or private equity financing.

"The costs should be evaluated based on the cost of capital today, versus the opportunity cost of lost equity at the time of the exit strategy. The difference can be huge," Breckner says.

Data Sales is a 40-year-old, privately owned company that specializes in providing IT asset-based leases. It has a comprehensive support system with its own transportation company, warehouse, technical, refurbishment, re-certification and resale capabilities.

MacFadyen sums up the FireHost-Data Sales partnership: "Data Sales took a bet on us when we were much smaller and that means a lot to us. We continue to use them for leasing equipment." ■