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COVER STORY

RACKING UP SPACE FOR DATA CLIENTS

An Overland Park company has become a national player in the data center business.

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ADAM VOGLER

STORING DATA AND BUILDING BUSINESS

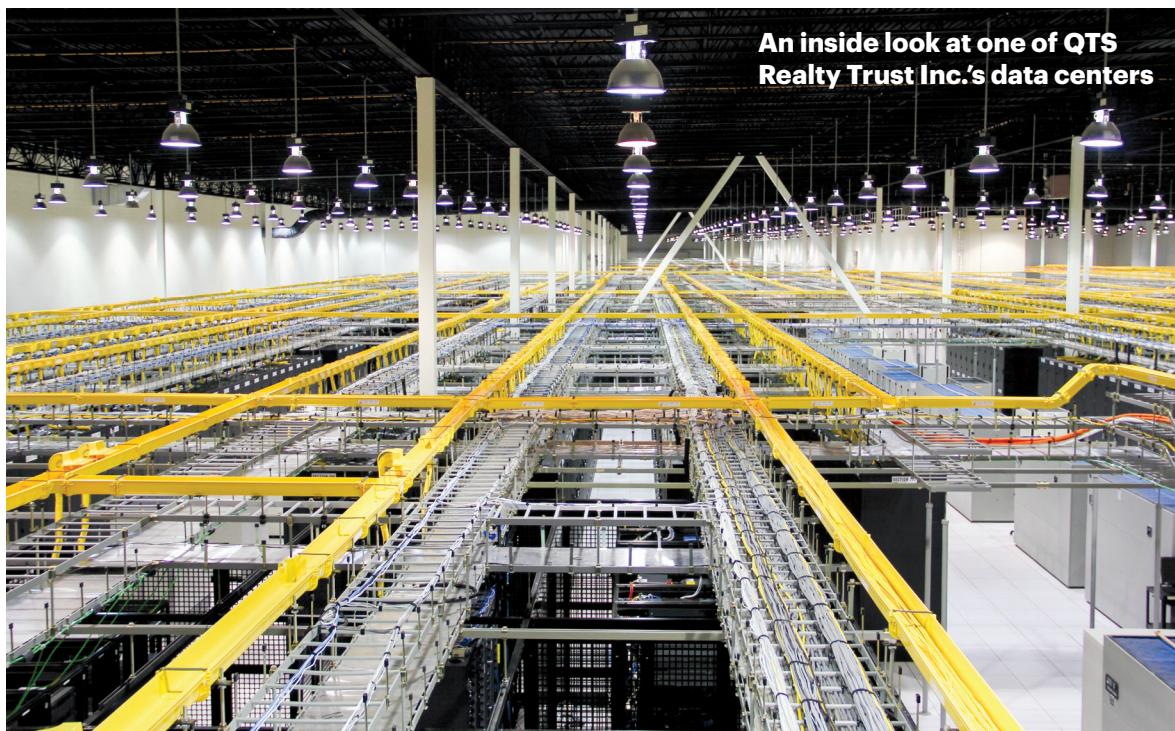
Overland Park-based QTS Realty Trust's name belies its focus — buying, building and operating large data centers

If the internet had a sound, it might be found in an unassuming Overland Park data center. From rack after rack of computer servers comes the monotonous purr of power and the whoosh of fans keeping the servers — and the businesses whose vital data is stored there — operating smoothly. The data center is one of 26 throughout the U.S., Canada, Europe and Asia operated by an Overland Park-based company that isn't widely known in its hometown and that doesn't have an obviously tech-sounding name.

Nevertheless, QTS Realty Trust Inc. pulled in more than \$423 million in core revenue last year and continues to buy new properties and build out more server space at facilities it already owns.

QTS operates in a world that is flexible, scalable and meant to adapt to future technology and evolving customer demands. It's led by CEO Chad Williams, who has called on those same traits in making his way from running the family auto salvage business to leading a publicly traded tech operation.

An inside look at one of QTS Realty Trust Inc.'s data centers



CONTRIBUTED | QTS REALTY TRUST INC.

An entrepreneur's eye

Williams was a high school junior in 1988 when his father fell ill. He stepped up to run the family business, Harrisonville-based Quality Auto Group Inc.

Within 10 years, Williams had morphed the auto salvage company into an auction business and redeveloped a building on the company's land for the federal government. He then leveraged what he learned to start Quality Lease & Development, a company focused on developing government properties.

The turn toward tech came about because of his entrepreneurial eye.

Peripheral Vision Infosystems Inc. had been one of the metro area's fast risers during the dot-com era. When the dot-com bubble burst and PVI became the area's most prominent casualty, Williams snapped up its Overland Park headquarters for \$3.5 million. He then began rolling up other tech offices and data centers through his new company: Quality Technology Group LLC.

He formally established QTS in 2005, after buying a 370,000-square-foot data center in the Atlanta area. The company is a real estate investment trust, or REIT, that buys and operates data centers. REITs pull in money from investors – QTS trades on the New York Stock Exchange – to provide financial backing. The company has used that backing for acquisitions that have included existing data centers, former semiconductor plants and even the former printing facility for the *Chicago Sun-Times*.

Rewiring the company

Williams' ability to shift according to opportuni-

ties and the market impresses – and occasionally spooks – investors. He did a bit of both last year.

In February 2018, QTS narrowed its focus to two markets:

► **Hyperscale cloud providers:** These huge clients – like Google, Amazon Web Services and Microsoft Azure – need the ability to scale quickly to meet increases in demand for cloud services.

► **Hybrid-enabled colocation:** This offers traditional colocation, in which multiple data customers lease space on the same server racks, but it includes additional services that let customers easily integrate cloud computing.

That meant pulling away from offering its own cloud and managed-service businesses, which Williams said were more “people intensive” and whose customers posed a higher risk of leaving for larger public cloud providers.

“Twelve to 15% of our company's revenue was creating 50%-plus of our annual revenue loss. It was stifling,” he said. “We were having good growth in our two core things, but this group of customers would inherently be creating a higher level of the corporate churn.”

So he focused on catering to businesses that needed a secure place to store data at lower costs.

“You go where the customer needs you to go,” Williams said. “We felt that the way technology was shifting that it would be better for us to accelerate the focus of our business on our two core products and migrate this third product to a partner – but still connect that partner through our software service delivery platform.”

Chief Technology Officer Jon Greaves charac-

BY THE NUMBERS

BECOMING SUSTAINABLE

Data centers are massive consumers of electric power, but their customers increasingly are focused on sustainability. Here are QTS' goals for reducing the impact of its operations on the environment:

100%

QTS power to come from renewable energy sources by 2025

90%

QTS facilities to be LEED certified

10M

Gallons of water to be conserved annually, minimum

30%

QTS facilities to have electric vehicle charging stations by 2025

600M

Pounds of material to be recycled by 2025

SOURCE:
2018 QTS ESG
Initiatives Report



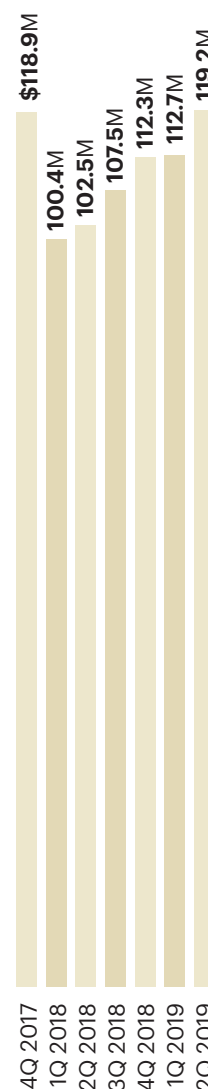
QTS' data center in Eemshaven, Netherlands, is the landfall point for the underwater fiber-optic cable connected to the U.K.

CONTRIBUTED | QTS REALTY TRUST INC.

REVENUE

A CHANGE, AND A REBOUND

In February 2018, QTS decided to focus on its two most-promising business lines. Since then, core revenue has rebounded.



Jon Greaves

terized QTS' software service delivery platform as "an innovation layer on top of the data center" that lets customers engage with day-to-day operations with more visibility. The application gives clients the ability to track colocated assets and even order connectivity services online.

"We're in a very physical, infrastructure-based business," Williams said. "It is my job and my executive team's job to think about the disruption of technology and the digitization of the world that's happening."

But the change rattled the market. QTS announced the restructuring late on a Tuesday. By the time the market opened the next day, the company stock's value had dropped nearly 24%. The move also put QTS – and Williams – in the cross hairs of activist investor Land & Buildings.

The shareholder accused QTS executives of mismanagement and miscommunication that resulted in a stock worth much more than its market price. It urged the company to sell to another public company and to "re-evaluate the senior leadership of the company given the abysmal underperformance."

Land & Buildings also called attention to QTS' relationships with other companies Williams and his family owned. That included QTS leasing its headquarters, buying furnishings and reimbursing for private air service from entities associated with Williams.

But QTS came back after narrowing its focus,

with six consecutive quarters of revenue growth. The company's core revenue for the past six quarters totaled \$654.6 million, up 13% from the total core revenue of \$579.3 million for the preceding six quarters.

Powering the future

Greaves said the company's service delivery software is an avenue for its future growth.

"If you look across every industry, they've moved into software," he said. "If you look at what Uber's done for transportation, Uber's not a taxi service. It's really a logistics service that moves people and food and other things around. Look at the video entertainment industry. You start out going to your local video store and renting a DVD, and Netflix completely changed that just by making its software accessible."

In a July 30 research update, analysts with St. Louis-based Stifel Nicolaus & Co. Inc. pegged QTS' tech focus as a "key differentiator ... as the world is increasingly digitizing and as enterprises continue to outsource workloads, they require seamless integration between their internal environment with the cloud and colocation environments."

Another issue for QTS is raw power. Data centers require massive amounts of electricity to run servers and cooling systems.

Collectively, QTS facilities have access to about 783 megawatts of power. To put that in perspective, 1 megawatt equals 1,000 kilowatts, and the average American home uses about 10,400 kilowatts of elec-

QTS' data center in Ashburn, Va., includes almost 428,000 square feet.



CONTRIBUTED | QTS REALTY TRUST INC.

tricity a year.

Customers, particularly hyperscale customers, worry about how much of that power comes from renewable sources. Today, nearly a third of QTS' power originates from renewable sources. By 2025, the company aims to have 100% of its power coming from renewable sources.

Availability of renewable energy, and substantial tax breaks supporting green energy, helped persuade QTS to buy two data centers in the Netherlands for \$44 million in April.

"It was an infrastructure-rich, low-risk entry point," Williams said of the deal. "People sort of dismiss that aspect because Europe, and the Netherlands in particular, is a pretty mature market. So people didn't think there was a lot of opportunities just laying around, but we found a pretty unique one."

Just three months after QTS slid into the European market, Amsterdam announced a pause

CLOSER LOOK

FEEDING THE NEED FOR DATA STORAGE

QTS Realty Trust has become a force in the data center industry by acquiring properties — everything from old data centers to a former newspaper printing plant — and expanding space to house servers. Here is a map of the company's U.S. data center locations.



GETTY IMAGES | QTS

in data center construction, concerned about the sector's hunger for land and electricity. The moratorium is expected to lift by the summer of 2020.

In February, QTS entered into a joint venture with global infrastructures fund Alinda Capital Partners LLC. It provides as much as \$1 billion for future data center construction. That's ample ammunition for a company – and CEO – on the lookout for the next big opportunity. 