

Rackspace Hosting, Inc (RAX) 10/5/09

RAX operates as a managed hosting company, running web-servers and hosting processes. The company offers hosting solutions including; managed hosting, co-location hosting, virtualization, cloud computing, database services, and security services. RAX was founded in 1998 and is based in San Antonio, Texas.

Current Price	\$17.25
52 Week High	\$18.63
52 Week Low	\$4.00
One Yr Target	\$18.00
Market Cap (in billions)	\$2.09
P/E (Trailing)	82.31
P/E(1 Yr Forward)	46.62
P/E/G	3.25
ROA	4.82%
ROE	12.04%
EPS	\$0.21
Beta	1.00
Annualized Dividend	\$0.00
Dividend Yield	0.00%
Analyst Consensus	2.10
Debt to Equity	1.13



Copyright © equityrecap.com

Annual EPS

2005	\$0.11	
2006	\$0.19	72.73%
2007	\$0.17	-10.53%
2008	\$0.19	11.76%
2009E	\$0.21	10.30%

Annual Revenue (in millions)

2005	\$138.77	
2006	\$223.97	61.40%
2007	\$362.02	61.64%
2008	\$531.93	46.93%

Annual Net Income (in millions)

2005	\$10.77	
2006	\$19.82	84.03%
2007	\$17.83	-10.04%
2008	\$21.70	21.70%

Free Cash Flows (in millions)

2005	-\$0.73	
2006	\$5.61	868.49%
2007	-\$35.80	-738.15%
2008	-\$28.82	19.50%

Required Rate of Return

10.12%

Dividend Growth Model

Present Value of 2014 Price	n/a
Holding Period Return (5 years)	n/a

Expected Annualized Return Model

Present Value of 2014 Price	\$10.18
Holding Period Return (5 years)	-11.70%

Residual Income Model

Intrinsic Stock Price	\$1.50
-----------------------	--------

Analysis

Positives

Favorable view among most analysts

Negatives

Very high P/E and PEG ratios suggest that the stock price is expensive for the value

The applicable RI and EAR valuation models suggest the stock price is overvalued

Financial Statements

Balance Sheet is strong with nice growth in most recent year

Income Statement is decent, but would like to see better Net Income with the increased Revenue

Cash Flows are positive and growing substantially for past four years, a great sign

Industry Analysis

Company is one of the largest in the industry

Company has better than average financial ratios compared with competitors

Summary

RAX is a good company in a young and growing market. RAX is one of, if not the only, public managed hosting companies which gives it a capital and exposure edge over competitors. The company's financial ratios don't look great, especially if you are a value investor. Financial statements for the company are good, especially the amount of overall growth on the Balance Sheet. Free Cash Flows are not aligned much with Net Income, but this can be explained by the reinvestment of the company into various long term assets. The two applicable valuation models have the stock price as overvalued, which is not a big surprise given the short history of the company and nature of the industry. RAX enjoys a high level of customer satisfaction and industry leading technology/innovation, which sets it in good position to capitalize on the growth of the industry. Overall, RAX is classic growth stock with high potential returns for those willing to take the risk, and could be a good buy for the right portfolio.