Vendor Profile

CoreSite Datacenter Solutions

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IDC OPINION

As enterprises implement their digital transformation (DX) journey, their requirements for cloud computing, storage, network, and power will continue to grow exponentially. The adoption of the 3rd Platform technologies such as cloud, mobility, Internet of Things (IoT), and analytics is accelerating the move to a global digital business. Enterprises must be able to conduct business anywhere and with a wider set of global customers. This trend will have a pervasive impact on enterprise IT processes, connectivity needs, and accessibility to customer data. Digital transformation is critical to enterprises' competitive positioning and ability to capture new revenue opportunities. These trends are driving increased demand for services from colocation datacenter providers such as CoreSite. At IDC, we believe CoreSite's strategy to expand in the company's target markets coupled with a relentless focus on the core value proposition of the company will help it compete effectively against larger colocation and cloud providers with global footprints. CoreSite will continue to benefit from the continued growth in cloud computing. CoreSite has differentiated its datacenter colocation services with a strategy underpinned by:

- Targeting eight key high-growth markets, providing it the ability to cover 75% of U.S. businesses within 5ms
- Establishing leadership in secure, reliable, and high-performance datacenters and connectivity solutions
- Enabling hybrid and multicloud solutions through cloud on-ramps, the CoreSite Open Cloud Exchange, and partnerships with managed services providers

IN THIS VENDOR PROFILE

This IDC Vendor Profile analyzes the United States-based colocation and interconnection vendor CoreSite. It provides an overview of the company and its financials, services portfolio, and business strategy and IDC's outlook and advice.

Note: All numbers in this document may not be exact due to rounding.

SITUATION OVERVIEW

Enterprises are accelerating their digital transformation to address proliferation of data and increased complexity of their IT environments and move to global digital business. Digital business is increasingly global in nature requiring secure and fast access to customers and partners. Enterprises are in the process of assessing resources and skills required to handle modern IT digital infrastructure. Enterprises will continue to consolidate their datacenter facilities while increasingly adopting cloud-based

applications, infrastructure, and storage. Secure cloud interconnection, colocation, and managed hosting in cloud environments are becoming increasingly important to their long-term strategy.

The recently published document *Worldwide Datacenter Installation Census and Construction Forecast, 2018-2022* (IDC #US42582118, February 2018) observes a clear trend of movement of internal datacenters to service provider (SP) datacenters. Enterprises are moving their IT infrastructure from their internal datacenters to service provider datacenters that are located close to large telecom hubs and population centers.

There are multiple factors that drive enterprises into colocation and interconnection centers. IDC surveys have indicated three key factors: gaining greater efficiency, reducing IT staff, and the need for additional bandwidth. As the expectations by enterprises from colocation vendors are evolving, colocation vendors are also moving up the value chain by expanding their service portfolio. Leading vendors in the colocation market are expanding their global interconnect capability to support global ecommerce.

The colocation segment is broadly classified into retail and wholesale colocation space. In retail colocation, the vendor rents out the datacenter facilities to multiple clients (multitenant) and adds few services on top of space, power, and network access. In the wholesale segment, the vendor rents out the whole datacenter facility to a single client or large sets of capacity to a few clients. However, the lines between retail and wholesale colocation are blurring as a number of wholesale vendors are offering retail type of services within their wholesale datacenters.

Company Overview

CoreSite Realty Corp. started in 2001 as CRG West, a portfolio company of The Carlyle Group. It was created to meet the needs of interconnection and datacenter customers at One Wilshire in Los Angeles and 55 South Market in San Jose.

From 2001 through 2009, CRG West continued to expand its datacenter footprint across the United States and broaden its offering of interconnection services. As CRG West's strengths and abilities continued to grow, so did the company's customer base. The Any2Exchange for internet peering was launched and quickly became the second largest of its kind in the country.

In 2009, CRG West rebranded as CoreSite. In 2010, CoreSite became publicly traded on the New York Stock Exchange (NYSE: COR). As of September 30, 2018, CoreSite's datacenters in eight major communications markets across the United States serve more than 1,350 customers and has a portfolio totaling more than 4.1 million total datacenter net rentable square feet (NRSF), which includes 1.7 million NRSF under construction or held for development. CoreSite datacenters are located in eight markets across the United States: New York, Denver, Chicago, Boston, Miami, Northern Virginia/D.C., Los Angeles, and Silicon Valley.

In addition to focusing on high-performance datacenter solutions in communication hubs, CoreSite has evolved to support hybrid and multicloud strategies through providing on-ramps to major public cloud and IT service providers such as AWS, Microsoft Azure, IBM, Google, Oracle Cloud, and Alibaba Cloud. Over the past year, the company has also continued to enhance the CoreSite Open Cloud Exchange, a one-to-many cloud platform launched in 2013, to increase API functionality, capacity management, and service provider availability.

Financial Performance of 2017

CoreSite has shown consistent growth rate in terms of operating revenue and adjusted EBITDA. Its datacenter expansion and digital transformation initiatives aimed at enterprises across multiple industry verticals have helped the company achieve significant revenue growth in 2017. The company reported total operating revenue of $481.8 million, out of which datacenter revenue was $470 million, a 20% increase YoY. CoreSite has also generated significant revenue from its interconnection business, which is an important growth segment for CoreSite. CoreSite generated $62.3 million from its interconnection business, an increase of 17.4% YoY (see Table 1).

TABLE 1

CoreSite Revenue Growth, 2015-2017 ($M)

	2015	2016	2017
Datacenter revenue	325	392	470
Growth (%)	23	20	20
Adjusted EBITDA	170	212	263
Growth (%)	27	25	24

Source: IDC, 2018

Company Strategy

Product/Service Offerings

Table 2 provides the snapshot of product/service offerings from CoreSite.

TABLE 2

CoreSite's Product/Service Offerings

Product/Services	Description
Scalable, flexible deployments	- Cabinet colocation - Cage colocation - Private suite - Full building - Infrastructure shell - Powered shell - N+1 and 2N systems - Common or dedicated infrastructure - High-density configurations
Interconnection solutions	- Cross connections - Global IX partnerships - Intramarket and intermarket connectivity, lit transport, and dark fiber - Any2Exchange for internet peering - Blended IP
Cloud services	- The CoreSite Open Cloud Exchange **Public cloud on-ramp:** - AWS Direct Connect - Google Cloud Platform - Microsoft Azure ExpressRoute - IBM Cloud Direct Link - Oracle FastConnect - Alibaba Cloud **Access to best-in-class service providers:** - Managed service providers - Monitoring and security SP - Hybrid and multicloud providers - SDN providers - Tier 1 network providers

TABLE 2

CoreSite's Product/Service Offerings

Product/Services	Description
Customer support services	- Remote hands - Datacenter assessment, relocation/migration, and implementation - Regulatory compliant security - Environmental monitoring - Customer concierge - Private portal - Onsite amenities - In-house security team

Source: IDC, 2018

Business Strategy

The company has implemented "hub and spoke" strategy across its four major markets in Los Angeles, New York, Northern Virginia region, and San Francisco Bay region. The "hub and spoke" strategy has basically helped CoreSite to expand datacenter footprints by connecting existing datacenters (hubs) to its newly build datacenter facilities (spokes).

The company is also focusing on increasing cash flow through the leasing of datacenter facilities strategically positioned across North America. The company recently announced several current and upcoming expansions, including construction on brand new facilities in Santa Clara (SV8), downtown Chicago (CH2), Los Angeles (LA3), and downtown Washington, D.C. (DC2).

CoreSite has differentiated its datacenter colocation services strategy by:

- Targeting eight key high-growth markets, providing it the ability to cover 75% of U.S. businesses within 5ms
- Establishing leadership in secure, reliable, and high-performance datacenters and connectivity solutions
- Enabling hybrid and multicloud solutions through cloud on-ramps, the CoreSite Open Cloud Exchange, and partnerships with managed services providers

As of September 30, 2018, CoreSite serves 1,350+ enterprises, network operators, cloud providers, and supporting service providers. CoreSite employs 450+ people with deep datacenter operational experience.

CoreSite targets eight strategic markets: Los Angeles, Denver, Northern Virginia/Washington, D.C., Silicon Valley, New York/New Jersey, Boston, Chicago, and Miami. These markets represent 27% of U.S. GDP with 20% reach to the U.S. population. The foundation of its business strategy rests on the following pillars:

- **Security and compliance:** Rigorous internal security training, certification, processes, and engagement
- **Reliability:** 100% uptime SLA, with a track record of six-nines uptime across its portfolio last year
- **Scalability:** Serving customer needs from half cabinets to full building; ability to expand datacenter space
- **High-performance interconnections:** Connectivity to 775+ network, cloud, and IT service providers, as well as access to the CoreSite Open Cloud Exchange

CoreSite works with channel partners – such as real estate brokers, systems integrators, value-added resellers (VARs), and managed service providers – to sell datacenter and connectivity solutions. The company has collaborated with enterprise, network, and cloud service providers to offer enterprise-grade high-performance colocation and datacenter services.

CoreSite GTM Strategy Overview

The company has also created "core partner program" for go-to-market (GTM) strategy. Core partner program includes the following category of channel and reseller partners:

- **Agent and reseller partners:** Partners that can act as master agent, referral partner or can sell services through distributor without any intermediaries
- **Solution partners:** Partner ecosystem of cloud, hosting, systems integrators, network SPs, and managed SPs to fulfill the IT requirements of distinct category of customers
- **Real estate brokers:** For better tenancy deals and benefits

FUTURE OUTLOOK

Digital transformation will continue to be a key factor of enterprises' IT strategic planning for several years to come. Digital transformation will impact both IT processes and digital business strategy. For enterprises, success or failure in digital transformation will correlate directly to the effectiveness of their IT service delivery platform. In detail:

- Internal datacenters will increasingly migrate to third-party datacenters for new critical workloads.
- Organizations will require agile access to IT and data resources near large telecommunications hubs and population centers to address new context-aware workloads.
- In the next few years, organizations will seek to extend the value of their investments in IoT through greater use of cognitive/AI for real-time operations and predictive maintenance. (IDC refers to these integrated hardware, software, and facilities solutions that enable the extension of leading cloud platforms to cities and critical facilities as Local Clouds.)
- Digital business and ecommerce are increasingly global in nature. This is driving demand for fast, simple, and secure interconnectivity – all of which require intuitive provisioning of this interconnectivity to support the real-time nature of ecommerce.

- The datacenter colocation market will continue to evolve to address these requirements. Industry trends such as datacenter consolidation, virtualization, secure interconnection, IoT, and adoption of cloud services increase the appeal for enterprises to more aggressively leverage colocation providers.

Challenges and Opportunities

Challenges

Datacenter technology platforms and services continue to evolve rapidly. Over the past few years, hyperconverged infrastructure, as well as virtualization in the form of SDN and NFV, has impacted the datacenter industry. Colocation vendors such as CoreSite need to architect their datacenters to cater for these changing dynamics. The implementation of automated, agile, and flexible datacenter infrastructure is a challenging task that requires scale because of huge amount of cost and resource requirements. CoreSite should address these additional challenges:

- CoreSite needs to execute on its expansion plan in the targeted metros to meet enterprise demand for more datacenter capacity as well as to achieve further economies of scale.
- Concerns over international security for the cross-border flow of information may present regulatory hurdles. This may force the implementation of additional regional and local datacenters for CoreSite.
- CoreSite's key differentiator is the company's ability to maintain a high quality of service (QoS) as measured by low latency, high availability, and traffic throughput. CoreSite needs to maintain these QoS metrics as it expands its datacenter footprint and provides value-added IT services.
- CoreSite will face competition from colocation providers that are moving up the value chain by providing specialized vertical applications such as CRM and ERP or targeting certain industries such as finance, government, and healthcare.

Opportunities

- Growth of 3rd Platform technologies, mainly cloud and the use analytics, has increased the demand for power, space, and computing. The increased use of cognitive computing and analytics will increase the demand for services from datacenter colocation vendors. CoreSite is in a great position to leverage this demand. IDC forecasts the U.S. colocation market to grow from $7.2 billion in 2017 to $12.3 billion in 2022 at a CAGR of 11.4%.
- Datacenter providers, such as CoreSite, are at the center of the IT ecosystem today. With focus on public cloud on-ramps, high performance, and reliability, CoreSite will benefit from increased cloud demand.
- IoT represents the next growth area for interconnection and datacenter services. CoreSite can benefit from this trend with further expansion of its footprint in currently served geographies.
- CoreSite should explore more opportunities in the CDN technology, especially in the media and entertainment industry, as the adoption of CDN in media and entertainment to deliver OTT videos is significantly growing.

ESSENTIAL GUIDANCE

Advice for CoreSite

- CoreSite will face continued competition from emerging vendors in all its major hubs and should continue to focus on geographical expansion and multiregional orchestration of services.

- CoreSite should provide datacenter transformation framework that is comprehensive in scope and emphasizes breadth in technology and facilities services. New datacenter architectures will have a significant impact on power and cooling requirements.
- CoreSite should consider geographic expansion including tier 2 cities to align with IoT trends. Datacenter proximity to IoT locations is an important consideration to maintaining low latency.
- CoreSite should consider international expansion to major city hubs to capture opportunities from global multilocation enterprises.
- Secure cloud interconnection is one of the key factors for enterprises in the digital transformation journey. CoreSite needs to promote its security features across datacenter and interconnection solutions. CoreSite may need to implement additional security features to deal with concerns over cross-border flow of information.

LEARN MORE

Related Research

- *U.S. Hosting Infrastructure Services Forecast, 2018-2022* (IDC #US43814218, June 2018)
- *IDC's Forecast Scenario Assumptions for the ICT Markets and Historical Market Values and Exchange Rates, Version 1, 2018* (IDC #US43651518, April 2018)
- *U.S. Colocation Services Forecast, 2018-2022* (IDC #US43549217, March 2018)
- *IDC's Worldwide Services Taxonomy, 2018* (IDC #US42657218, March 2018)
- *Worldwide Datacenter Installation Census and Construction Forecast, 2018-2022* (IDC #US42582118, February 2018)
- *IDC's 2017 U.S. Enterprise Communications Survey: IT Infrastructure Hosting Services* (IDC #US43282017, December 2017)

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