REPORT REPRINT

CenturyLink stretches further toward the cloud with ElasticBox buy

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With the ink still drying on its recent netAura purchase, CenturyLink has acquired multi-cloud management services firm ElasticBox as it continues to bolster its hosting and cloud services portfolio. Terms of the deal were not disclosed, but we estimate that the target had revenue of $1-3m.

451 Research®

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Similar to all network service providers, CenturyLink's strategy to replace declining transport revenue with managed and unmanaged IT services has been accelerated by M&A. Among its previous acquisitions:

- Savvis (managed hosting) in April 2011
- AppFog (PaaS) in June 2013
- Tier 3 (cloud service platform) in November 2013
- Cognilytics (big data) in December 2014
- DataGardens (disaster recovery) in December 2014
- Orchestrate (database as a service) in April 2015
- netAura (managed security services) in March 2016

THE 451 TAKE

CenturyLink is continuing its aggressive move among telcos in transforming into a complete network and managed IT services company. Since enterprises are demonstrating a desire to use multiple sources for cloud services, CenturyLink is smart to add multi-cloud management functions to its cloud portfolio as not all customers will exclusively want its own VMware-based IaaS offering. Enterprises find operating hybrid clouds increasingly difficult – ElasticBox's offerings ease heterogeneous infrastructure and application provisioning, so they should fit nicely in CenturyLink's self-service portal later this year.

DEAL DETAILS

Busy exploring options for its datacenter and colocation business, CenturyLink is showing little sign of slowing down its push further up the stack with new cloud offerings and managed services. It has acquired cloud application management vendor ElasticBox in the latest of a half-dozen deals by the company to offer services that enable IT departments to leverage the transition to cloud and hybrid deployments with a greater mix of managed services.

ElasticBox's offering allows developers to build discrete instances for deploying an application, or parts of one, across different cloud services. Like CenturyLink's purchase of Orchestrate, which sold a database-as-a-service offering, today's transaction is aimed at enticing developers to use its cloud service. Also like its acquisition of Orchestrate, the price tag was likely modest. Through 2015, ElasticBox's headcount dropped from 45 to 25, finishing with 17 at the time of its sale. It hadn't raised any funding in two years.

As CenturyLink adds ElasticBox to its cloud business, the company is contemplating the future of its datacenter division, which could result in a sale or spinoff. In that business, CenturyLink faces rising capital costs and downward pressure on pricing – a scenario that's playing out across the colocation market as mid-tier IT departments migrate to the cloud and managed services, giving greater bargaining power in colocation contracts to the largest IT shops.

DEAL RATIONALE

CenturyLink's cloud unit focuses on a few key themes, including managed services, private and hybrid clouds, and a singular experience and platform for all of its cloud-based products. Its hosting segment includes all managed hosting, cloud services, colocation and hosting-related network services revenue. The company wants to leverage these assets to drive additional revenue through cross-selling opportunities in its other segments. According to a cloud computing survey by 451 Research's Voice of the Enterprise, nearly 70% of enterprises will deploy applications and data in multiple clouds over the next two years, with 40% planning to orchestrate workloads seamlessly across those environments.

ElasticBox's software is centered on automating and speeding application delivery via its reusable application components, which are delivered as a service. The acquisition complements CenturyLink's strategy of automating functions and offering a singular experience. The telco can incorporate ElasticBox's services to target heterogeneous environments with ease of infrastructure and application provisioning accessed through its self-service portal.

CenturyLink recently announced Runner, a service for configuration management and orchestration built on the popular Ansible tooling (acquired by Red Hat in October 2015). Runner is aimed at helping to move the company away from its previous proprietary offering for application orchestration, Blueprints. We think ElasticBox could find a good fit as an integration and enhancement for Runner, perhaps enabling additional portability beyond Ansible, although there is some overlap with the Runner marketplace.

TARGET PROFILE

Headquartered in San Francisco with an office in Madrid, ElasticBox offers subscription-based services that include Ansible, Chef, Puppet and Salt deployment scripts as well as cloud provider access policies. Its services also enable the use of ElasticBox in combination with AWS CloudFormation and the consumption of Dockerfiles for the construction of multi-tiered applications. More recently, the company placed a bet on the Kubernetes container management engine, which has seen increasing traction, by releasing an open source web console. The product is a hosted service on ElasticBox's own infrastructure and is offered in two versions: Developer, which is free, and Enterprise.

Users access ElasticBox's catalog of application and infrastructure components (Puppet, Chef, WordPress, Jenkins, Docker, etc.) to build on their own customized application stacks. The company's managed applications are deployed on any private or public cloud, including those from Amazon, Microsoft, Google, VMware and OpenStack, with CenturyLink Cloud a recent addition. Users can entirely manage application deployment between both public and private clouds from one service catalog.

Intel and Nexus provided $9m in series A round in April 2014, bringing ElasticBox's total funding to roughly $13m. In our last report on the company, we suggested that it would need additional financing by early 2016 – it seems it opted for this exit in lieu of a new round.

COMPETITION

For the past several years, most network service providers (NSPs) have been seeking to turn themselves into information and communications technology suppliers, but some have changed course. AT&T outsourced its managed hosting business to IBM SoftLayer. Windstream divested its datacenter assets. Verizon is rumored to be shopping its datacenter real estate and turned off self-service access to its public cloud.

CenturyLink lays claim to being the third-largest NSP in the US, right behind AT&T and Verizon in terms of access lines, and is also rumored to be interested in a datacenter asset sale. All three of these NSPs have a similar goal of providing customers from small business to large enterprises with seamless, network-based cloud services. Internap, XO Communications and other competitive local exchange carriers, as well as cable companies like Comcast and Time Warner, are also looking to cash in on this strategy. Global providers such as BT, NTT, Orange and Telefonica have similar plans. None has perfected an integrated offering, often due to the burden of legacy support systems and organizational structures.

NSPs are not the only vendors courting enterprises with hosting and cloud-based services and positioning their own multi-cloud management strategies. Rackspace, Datapipe, Hewlett Packard Enterprise and other service providers are aiming to do the same.

ACQUIRER
CenturyLink

TARGET
ElasticBox

SUBSECTOR
Telecommunications

DEAL VALUE
Not disclosed

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June 14, 2016

ADVISERS
Not disclosed