

Rackspace Technology

Q1 2024 Earnings Presentation

May 9, 2024

Disclaimer

Forward-Looking Statements

Rackspace Technology has made statements in this presentation and other reports, filings, and other public written and verbal announcements that are forward-looking and therefore subject to risks and uncertainties. All statements, other than statements of historical fact, included in this presentation are, or could be, “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 and are made in reliance on the safe harbor protections provided thereunder. These forward-looking statements relate to anticipated financial performance, including our expected results for our first quarter 2024 results and our financial outlook, management’s plans and objectives for future operations, business prospects, outcome of regulatory proceedings, market conditions, and other matters. Any forward-looking statement made in this presentation speaks only as of the date on which it is made. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future developments or otherwise. Forward-looking statements can be identified by various words such as “expects,” “intends,” “will,” “anticipates,” “believes,” “confident,” “continue,” “propose,” “seeks,” “could,” “may,” “should,” “estimates,” “forecasts,” “might,” “goals,” “objectives,” “targets,” “planned,” “projects,” and similar expressions. These forward-looking statements are based on management’s current beliefs and assumptions and on information currently available to management. Rackspace Technology cautions that these statements are subject to risks and uncertainties, many of which are outside of our control, and could cause future events or results to be materially different from those stated or implied in this presentation, including among others, risk factors that are described in Rackspace Technology, Inc.’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and other filings with the Securities and Exchange Commission, including the sections entitled “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained therein.

Non-GAAP Measures

To provide investors with additional information in connection with our results as determined in accordance with generally accepted accounting principles in the United States (“GAAP”), we disclose Non-GAAP Net Revenue, Non-GAAP Operating Profit, Non-GAAP Net Income (Loss), and Non-GAAP Earnings (Loss) Per Share as non-GAAP financial measures. These non-GAAP financial measures are not measures of financial performance in accordance with GAAP and may exclude items that are significant in understanding and assessing our financial results. Therefore, these measures should not be considered in isolation or as an alternative or superior to GAAP measures. You should be aware that our presentation of these measures may not be comparable to similarly-titled measures used by other companies. Reconciliations of each non-GAAP financial measure to the applicable most comparable GAAP measure can be found in the Appendix.

We present these non-GAAP financial measures to provide investors with meaningful supplemental financial information, in addition to the financial information presented on a GAAP basis. Rackspace Technology management believes that excluding items such as the impacts from foreign currency rate fluctuations on our international business operations or certain costs, losses and gains that may not be indicative of, or are unrelated to, our core operating results, and that may vary in frequency or magnitude, enhances the comparability of our results and provides a better baseline for analyzing trends in our business. Rackspace Technology management believes the non-GAAP measures provided are also considered important measures by financial analysts covering Rackspace Technology as equity research analysts continue to publish estimates and research notes based on our non-GAAP commentary.

Amounts on subsequent pages may not add due to rounding.

Q1 2024 Financial Results

\$'s in millions

	Q1 2024	Q/Q	Y/Y
Total Revenue	\$691	(4%)	(9%)
Non-GAAP Net Revenue	\$384	(7%)	(16%)
Non-GAAP Gross Profit	\$141	(11%)	(21%)
<i>Non-GAAP Gross Margin</i>	20.4%	(2 pts)	(3 pts)
<i>Non-GAAP Net Gross Margin</i>	36.7%	(2 pts)	(2 pts)
Non-GAAP Operating Profit	\$16	(67%)	(68%)
<i>Non-GAAP Operating Margin</i>	2.3%	(4 pts)	(4 pts)
<i>Non-GAAP Net Operating Margin</i>	4.2%	(7 pts)	(7 pts)
Non-GAAP EPS	\$(0.11)	\$(0.08)	\$(0.09)

- Non-GAAP Net Revenue is a metric that applies net-accounting to public cloud infrastructure resale revenue (only the profit element of infrastructure resale is included)
- Non-GAAP Net Revenue provides investors with visibility to the true margin profile of our business

Q1 2024 Segment Financials

\$'s in millions

	Total Rackspace	Private Cloud	Public Cloud	Q/Q %			Y/Y %		
				Total Rackspace	Private Cloud	Public Cloud	Total Rackspace	Private Cloud	Public Cloud
Total Revenue	\$691	\$268	\$422	(4%)	(6%)	(3%)	(9%)	(15%)	(5%)
Non-GAAP Net Revenue	\$384	\$268	\$116	(7%)	--	(9%)	(16%)	--	(20%)
Non-GAAP Gross Profit	\$141	\$105	\$36	(11%)	(3%)	(28%)	(21%)	(17%)	(30%)
<i>Non-GAAP Gross Margin</i>	20.4%	39.0%	8.6%	(2 pts)	1 pt	(3 pts)	(3 pts)	(1 pt)	(3 pts)
<i>Non-GAAP Net Gross Margin</i>	36.8%	--	31.5%	(2 pts)	--	(9 pts)	(2 pts)	--	(4 pts)
Segment Operating Profit	\$81	\$72	\$9	(22%)	(7%)	(65%)	(31%)	(24%)	(60%)
<i>Segment Operating Margin</i>	11.7%	26.7%	2.2%	(3 pts)	(0 pts)	(4 pts)	(4 pts)	(3 pts)	(3 pts)
<i>Segment Net Operating Margin</i>	--	--	8.0%	--	--	(13 pts)	--	--	(8 pts)
Corporate Functions	(\$65)			18%			(3%)		
Non-GAAP Operating Profit	\$16			(67%)			(68%)		
<i>Non-GAAP Operating Margin</i>	2.3%			(4 pts)			(4 pts)		
<i>Non-GAAP Net Operating Margin</i>	4.2%			(7 pts)			(7 pts)		

Cash Flow & Capital Expenditures

\$'s in millions

As of March 31, 2024	Reported	
	Q1'24	LTM
Cash Provided by (used in) Operating Activities	(\$90)	\$287
Free Cash Flow	(\$118)	\$174
<i>LTM Free Cash Flow Yield</i>		<i>49%</i>
Total Capital Expenditures	\$46	\$155
<i>Total CAPEX Intensity</i>	<i>7%</i>	<i>5%</i>
Cash Capital Expenditures	\$28	\$113
<i>Cash CAPEX Intensity</i>	<i>4%</i>	<i>4%</i>
Cash & Cash Equivalents		\$283
Undrawn Revolving Credit Facility		\$375
Total Liquidity		\$658

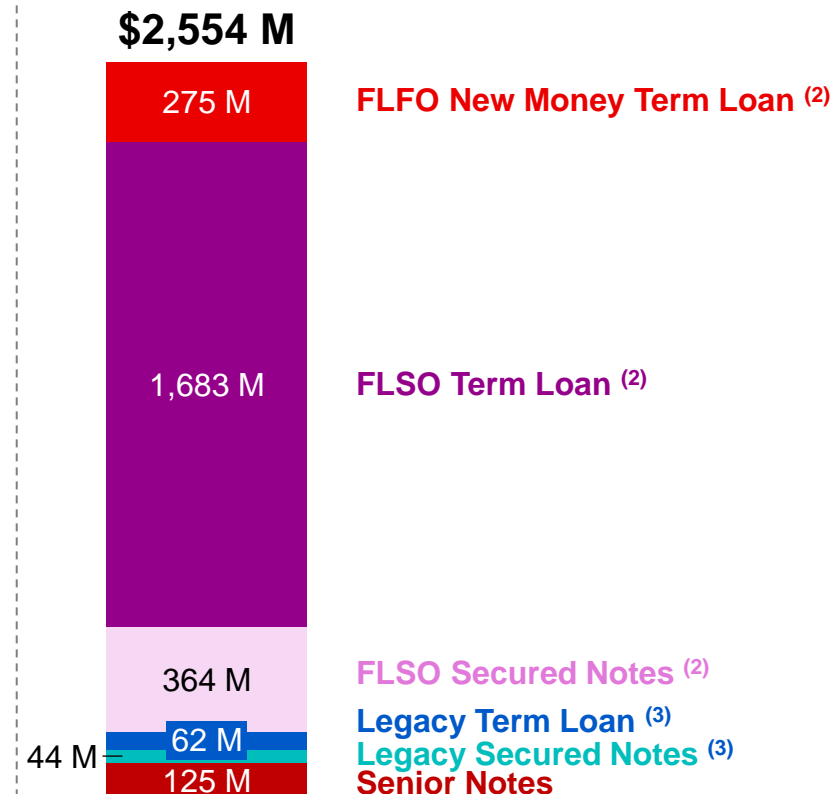
Pro Forma Debt Maturity Overview ¹

\$'s in millions

Pro Forma for Closing of Public Debt Exchange

Facility	PF Balance	Maturity	Rate	Hedge
FLFO New Money Term Loan	\$275	May-2028	1-month SOFR + 0.114% Spread + 625 bps	N/A
FLSO/Legacy Term Loan	\$1,745	May-2028 (FLSO)/ Feb-2028 (L)	1-month SOFR + 0.114% Spread + 275 bps	\$1,350M at 2.342% w/ 75 bps floor
FLSO/Legacy Secured Notes	\$408	May-2028 (FLSO)/ Feb-2028 (L)	3.500% Fixed Rate	N/A
Senior Notes	\$125	Dec-2028	5.375% Fixed Rate	N/A
Total Principal Balance	\$2,554			
Net Principal Balance	\$2,264			

The Company has no corporate maturities prior to 2028.



(1) Debt values are shown at principal value.

(2) Under the terms of the security documents and intercreditor agreements dated March 12, 2024, any amounts received by the collateral agent or any other secured party in respect of the proceeds of collateral will be applied first to repay the holders of the FLFO New Money Term Loan and the Revolving Credit Facility (the "Super Priority Indebtedness"). The Super Priority Indebtedness will be repaid in full prior to any payment in respect of collateral to the holders of the FLSO Term Loan, the FLSO Secured Notes and any other indebtedness of the New Borrower and the Guarantors.

(3) Following the debt refinancing transactions completed in March 2024, the Company subsidiaries that previously guaranteed the Legacy Term Loan and the Legacy Secured Notes no longer guarantee or pledge collateral to secure, the Legacy Term Loan or the Legacy Secured Notes.

Outlook

	Q2 2024 Guidance
Total Revenue	\$668 - \$678 million
Private Cloud Revenue	\$260 - \$265 million
Public Cloud Revenue	\$408 - \$413 million
Non-GAAP Operating Profit	\$20 - \$22 million
Non-GAAP Loss Per Share	(\$0.09) - (\$0.11)
Non-GAAP Other Income (Expense)	(\$52) - (\$54) million
Non-GAAP Tax Expense Rate	26%
Non-GAAP Weighted Average Shares	227 - 229 million

NOTE: Refer to Appendix for more information on how we define Non-GAAP Tax Expense Rate and Non-GAAP Weighted Average Shares.



Appendix

Non-GAAP Net Revenue Reconciliation

<i>(In millions)</i>	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Total Revenue	\$758.7	\$746.3	\$732.4	\$719.7	\$690.8
Pass-through infrastructure resale costs	(298.8)	(299.7)	(302.5)	(306.4)	(306.7)
Non-GAAP Net Revenue	\$459.9	\$446.6	\$429.9	\$413.3	\$384.1

Non-GAAP Gross Profit Reconciliation

<i>(In millions)</i>	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
GAAP Gross Profit	\$169.6	\$153.1	\$152.0	\$154.1	\$132.8
Share-based compensation expense	2.8	2.6	2.0	1.7	1.9
Special bonuses and other compensation expense	0.7	1.4	1.2	0.7	0.9
Purchase accounting impact on expense	0.6	0.7	0.6	0.7	0.6
Restructuring and transformation expenses	4.7	5.1	6.2	0.9	4.9
Hosted Exchange incident expenses, net of insurance proceeds	0.3	-	-	-	-
Total Adjustments	\$9.1	\$9.8	\$10.0	\$4.0	\$8.3
Non-GAAP Gross Profit	\$178.7	\$162.9	\$162.0	\$158.1	\$141.1

Non-GAAP Net Loss Reconciliation

<i>(In millions)</i>	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	
					High	Low
Net income (loss)	\$(612.0)	\$(27.2)	\$(226.6)	\$28.0	\$(545.3)	\$(645.3)
Share-based compensation expense	15.2	19.5	17.2	13.5	12.8	12.8
Special bonuses and other compensation expense	2.2	4.2	3.3	2.4	3.1	3.1
Transaction-related adjustments, net	1.3	1.2	1.6	1.1	1.0	1.0
Restructuring and transformation expenses	25.6	23.1	14.3	7.8	20.0	20.0
Hosted Exchange incident expenses, net of insurance proceeds	3.2	1.7	(5.3)	(4.4)	0.2	0.2
Impairment of goodwill	543.1	-	165.7	-	573.2	573.2
UK office closure	-	12.1	-	-	-	-
Impairment of assets, net	-	-	48.4	3.8	20.0	20.0
Net gain on divestiture and investments	(0.1)	(0.1)	-	(0.1)	(0.1)	(0.1)
Debt modification costs and gain on debt extinguishment	(12.8)	(94.9)	(55.4)	(108.2)	(56.7)	(56.7)
Other adjustments	(2.1)	(0.2)	2.6	(1.3)	0.4	0.4
Amortization of intangible assets	40.9	41.0	39.7	39.4	38.7	38.7
Tax effect of non-GAAP adjustments	(9.2)	6.1	(13.6)	11.6	(91.6)	8.4
Non-GAAP Net Loss	\$(4.7)	\$(13.5)	\$(8.1)	\$(6.4)	\$(24.3)	\$(24.3)

Non-GAAP Operating Profit Reconciliation

<i>(In millions)</i>	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Loss from operations	\$(581.0)	\$(63.8)	\$(239.4)	\$(15.2)	\$(652.8)
Share-based compensation expense	15.2	19.5	17.2	13.5	12.8
Special bonuses and other compensation expense	2.2	4.2	3.3	2.4	3.1
Transaction-related adjustments, net	1.3	1.2	1.6	1.1	1.0
Restructuring and transformation expenses	25.6	23.1	14.3	7.8	20.0
Hosted Exchange incident expenses, net of insurance proceeds	3.2	1.7	(5.3)	(4.4)	0.2
Impairment of goodwill	543.1	-	165.7	-	573.2
UK office closure	-	12.1	-	-	-
Impairment of assets, net	-	-	48.4	3.8	20.0
Amortization of intangible assets	40.9	41.0	39.7	39.4	38.7
Total Adjustments	\$631.5	\$102.8	\$284.9	\$63.6	\$669.0
Non-GAAP Operating Profit	\$50.5	\$39.0	\$45.5	\$48.4	\$16.2

Non-GAAP Loss Per Share Reconciliation

<i>(In millions)</i>	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	
					High	Low
Net income (loss) attributable to common stockholders	\$(612.0)	\$(27.2)	\$(226.6)	\$28.0	\$(545.3)	\$(645.3)
Non-GAAP Net Loss	\$(4.7)	\$(13.5)	\$(8.1)	\$(6.4)	\$(24.3)	\$(24.3)
Weighted average number of shares – Diluted	213.2	215.1	216.0	219.6	219.8	219.8
Effect of dilutive securities	1.1	1.2	6.4	-	5.7	5.7
Non-GAAP weighted average number of shares – Diluted	214.3	216.3	222.4	219.6	225.5	225.5
Net income (loss) per share – Diluted	\$(2.87)	\$(0.13)	\$(1.05)	\$0.13	\$(2.48)	\$(2.94)
Per share impacts of adjustments to net income (loss)	2.85	0.06	1.01	(0.16)	2.37	2.83
Per share impacts of shares dilutive after adjustments to net income (loss)	0.00	0.01	0.00	0.00	0.00	0.00
Non-GAAP Loss per Share	\$(0.02)	\$(0.06)	\$(0.04)	\$(0.03)	\$(0.11)	\$(0.11)

Free Cash Flow Reconciliation

<i>(In millions)</i>	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024
Net cash provided by (used in) operating activities	\$(1.9)	\$37.8	\$266.8	\$72.2	\$(90.3)
Cash purchases of property, equipment and software	(12.1)	(23.4)	(27.5)	(33.9)	(28.1)
Free Cash Flow	\$(14.0)	\$14.4	\$239.3	\$38.3	\$(118.4)

Definitions

Non-GAAP Net Revenue	Non-GAAP Net Revenue applies net-accounting to public cloud infrastructure resale revenue. This means only the profit element of infrastructure resale is included in Non-GAAP Net Revenue in addition to public cloud services and private cloud revenues.
Segment Operating Profit	Segment revenue less expenses directly attributable to running the respective segments' business. These expenses exclude centralized corporate function costs.
Corporate Functions	Costs that are not allocated to segments. These costs are related to centralized corporate functions that provide services to the segments in areas such as accounting, information technology, marketing, legal and human resources.
Capital Intensity	Capital intensity reflects capital expenditures divided by revenue for the same period.
Non-GAAP Tax Expense Rate	We utilize an estimated structural long-term non-GAAP tax rate in order to provide consistency across reporting periods, removing the effect of non-recurring tax adjustments, which include but are not limited to tax rate changes, U.S. tax reform, share-based compensation, audit conclusions and changes to valuation allowances. We used a structural non-GAAP tax rate of 26% for all periods which reflects the removal of the tax effect of non-GAAP pre-tax adjustments and non-recurring tax adjustments on a year-over-year basis. The non-GAAP tax rate could be subject to change for a variety of reasons, including the rapidly evolving global tax environment, significant changes in our geographic earnings mix including due to acquisition activity, or other changes to our strategy or business operations. We will re-evaluate our long-term non-GAAP tax rate as appropriate. We believe that making these adjustments facilitates a better evaluation of our current operating performance and comparisons to prior periods.
Non-GAAP Weighted Average Shares	Reflects impact of awards that would have been anti-dilutive to net loss per share, and therefore not included in the calculation, but would be dilutive to Non-GAAP EPS and are therefore included in the share count for purposes of this non-GAAP measure. Potential common share equivalents consist of shares issuable upon the exercise of stock options, vesting of restricted stock units (including performance-based restricted stock units) or purchases under the Employee Stock Purchase Plan (the "ESPP"), as well as contingent shares associated with our acquisition of Datapipe Parent, Inc. Certain of our potential common share equivalents are contingent on Apollo achieving pre-established performance targets based on a multiple of their invested capital ("MOIC"), which are included in the denominator for the entire period if such shares would be issuable as of the end of the reporting period assuming the end of the reporting period was the end of the contingency period.

The logo features the text 'rackspace technology' in a white, lowercase, sans-serif font. 'rackspace' is on the top line and 'technology' is on the bottom line, with a registered trademark symbol (®) at the end. The text is centered within a solid black circle. This black circle is surrounded by a vibrant, multi-colored ring that transitions from red at the top to purple and blue at the bottom. The entire graphic is set against a solid black background.

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