

Leverage financing in servervault

Business



ServerVault claims to offer a much higher level of services than the other group at the 'managed" hosting group, having seven layers of security protection which passed the U. S Department of Defense Security Standard and it's vaulted are specially designed to be able to withstand the most destructive forces of nature. Its promise of reliability and speed is backed up by redundant bandwidth and power supply having four to five providers of internet access in each facility.

The company rakes revenue from three sources: one-time set up for new servers, monthly hosting fees, and fees for additional value-added service. ServerVault enjoys the advantage of having a facility designed to generate four or five times more revenue per square foot than those of its competitors.

Being in an industry where business costs occurred mainly upfront and being young in the business, ServerVault faces a deep need for financing. Their first small-scale facility was already complete and is starting to fill up. The management is keen on taking the first-mover advantage by building additional facilities as quickly as possible but the company faces cash constraints aside from the fact that they also have to expand their workforce.

Definitely, there is no other direction for ServerVault to take but forward. With the big business opportunity that the company enjoys, leverage financing becomes necessary and will definitely be worthwhile.

Having the next facility building scheduled for September 2000, July is the best time to move for financing. The upfront cost is around \$6 million and the cost for the new server will reach \$200, 000, while the personnel cost can be as high as \$210, 000 per month, totaling to an additional cash

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requirement of around \$6.5 million for the Month of September and \$410,000 for the succeeding months, until December. Leverage financing can be provided for the additional costs that the company will incur in the following year. Computing the upfront cost for the facility, additional personnel expense and server expense, the total expenditure for the year 2000 to the year 2001 will reach 37,170,000 and a total additional cost of 72,684,000 to finance the entire three-year plan.

The entire amount is definitely too much for financing from friends and family so that established venture capitalists' participation in the business is necessary. The negotiations for financing should be done as soon as possible and any excess from the leverage can be used to finance current expenses as revenues are still not enough to cover the current operating expense. No additional financing for current spending is necessary.