The Washington Post

How patience and partnership built a billion-dollar data center business

September 11, 2020

Bill Conway, left, and Byrne Murphy's transformation of DigiPlex speaks to the advantages of investing with a long horizon. "If you find the right business and the right person to run it, there's a lot to be said for staying on and letting the money compound," Conway says. (Bill O'Leary/The Washington Post)

Perspective by Thomas Heath

A business going bust is usually the end of the story. You don't hear from it again.

Not DigiPlex, the Scandinavian data center company whose Washington-based investors bought it two decades ago for $2.75 million. It's now worth at least $1 billion.

Byrne Murphy and Bill Conway, the billionaire co-founder of Carlyle Group, the D.C.-based private equity firm, nurtured DigiPlex back to health with their personal money, granular management and long-term mind-set.

“I had come up through my career as a builder, and I looked at America and saw this powerful thing called the Internet,” said Murphy, 60, who lived and started businesses in Europe for two decades. “I said to myself, ‘There has to be a nexus where physical world meets virtual world. Where is that nexus?’ And I said, ‘data centers.’”

DigiPlex speaks to the advantages of patient money and buy-and-hold investing, the antithesis of private equity’s classic model of buy-fix-sell within six years.

“If you find the right business and the right person to run it, there’s a lot to be said for staying on and letting the money compound. That’s the Buffett model,” said Conway, referring to legendary investor Warren Buffett.

Data centers house the brains and heart of the digital age, or where “the cloud” lives. They house thousands of computers that help stream your Netflix videos, process credit card charges, make stock trades, publish the latest Trump tweet and even flag your electric car if there is something in the road ahead.

Data centers are “highly secure buildings,” Murphy said, that can be as large as a football field and are generally nondescript. One of his data centers in Norway is built underground, he noted. They contain multiple independent power sources that can be accessed in two one-thousandths of a second in case of interruption.

DigiPlex owns six data centers in Norway, Sweden and Denmark that house computers for such clients as Microsoft, Amazon Web Services, and Norwegian telecommunications giant Telenor. (Amazon founder Jeff Bezos owns The Washington Post.)

DigiPlex was drawn to the Nordic region’s cheap hydropower and cool climate, key considerations given the tremendous heat and power needed to run the computers inside. Locating a data center in

Norway, compared with elsewhere in Europe, can save a Silicon Valley company more than $2 billion over the 20-year life of a data center.

“We save our customers hundreds of millions by using hydropower,” Murphy said. “The chilly air can add another 25 percent in savings.” DigiPlex is even working on a plan to sell the heat from the data centers to warm as many as 15,000 nearby homes.

Murphy’s data centers are expected to generate around $50 million in cash flow this year, according to an industry analyst. Gross profit margins of 65 percent are the industry norm.

Murphy entered the data center business almost by accident. After graduating from the University of Virginia’s Darden School of Business in 1986, the Washington native returned home to work in real estate. A $250 million development centered on the Warner Theatre went bust in the savings and loan crisis of the early 1990s.

In 1992, Murphy moved his family to Paris, where he helped introduce such American business concepts as outlet shopping centers and private residence clubs.

“I am a serial entrepreneur who engages in pattern-recognition by looking at proven American business concepts and importing them to Europe,” he said.

Murphy was looking to take a break in 2000 when he got a call from a friend at Carlyle, asking whether he would take over an ailing data center business that the private equity firm owned in Europe.

Carlyle is a publicly traded asset management firm that built its reputation by investing in businesses, increasing their profits, then distributing those profits to partners such as pension funds, foreign governments, wealthy individuals and nonprofits like foundations and universities — all of which supply Carlyle with the money it needs to invest. Public shareholders also get a slice of those profits.

DigiPlex was one of Carlyle's investments. In 2000, Carlyle and a partner plowed $275 million in cash and more than $100 million in debt into forming DigiPlex from scratch, building a network of 13 data centers on a bet the nascent Internet would create huge demand for computer power.

"It was, build it and they will come,'" Murphy said. "They didn't come."

Carlyle soon found itself buried under 13 failing data centers across Europe. The dot-com bubble had burst. Demand for computer power in Europe vaporized overnight. DigiPlex headed toward bankruptcy. It needed a rescue.

"The company lay in broken pieces across Europe," Murphy said. "I came in to repair it."

Murphy took over as chief executive in January 2001 and met with DigiPlex's lenders to devise a 90-day turnaround plan.

"This was pioneering," Murphy said. "Data centers were doing well in the U.S., but the concept moved to Europe and the industry overbuilt tremendously."

As conditions deteriorated, Murphy put everything on hold, including plans to buy and expand existing server farms. The lenders wanted to sell the company, which Murphy estimated was worth only $50 million out of the nearly $400 million invested.

Murphy was convinced that data centers would become a freight train, so he offered to buy all 13 DigiPlex data centers for the $50 million.

"It was going to take personal money to get through the rough time and to smoother times ahead," Murphy said. The lenders said no. They thought they could get more money if they sold the data centers individually.

So Murphy offered to buy one data center by himself.

Conway shared his conviction and asked to join him in the personal investment.

“I saw opportunity and I had a great partner in Byrne,” Conway said. “He’s like hockey star Wayne Gretzky, skating to where the puck is going, not where it’s been. The world was going digital and the future was going to be different than the past.”

Together, Murphy, Conway and several Carlyle colleagues bought one data center, in Oslo, for $2.75 million. In the next couple of years they invested another $9 million.

“I bet the farm,” said Murphy, who wasn’t taking a salary but received modest success fees for adding new customers. He had millions invested in outlets and other projects, but he was cash poor.

“I had serious adversity when I was young because of a bone disease,” Murphy said. “You learn lessons of perseverance and how to work on a team to overcome serious obstacles.” He thought it would take three years to get to profitability. Murphy took charge of day-to-day operations; Conway supplied strategy and cash.

With only one employee and a part-time consultant, Murphy went to work.

Murphy’s sales tack was heavy emphasis on security and reliable connectivity. “Never having outages” became a mantra.

It took a year to get his first major client. With Telenor in the bank, other large customers, including government agencies, began to trickle in. Around 2006, Conway and Murphy bought out the remaining Carlyle partners and took full ownership of the company.

By 2010, DigiPlex had made a name for itself and was looking to build more data centers. One such addition required a $10 million infusion from Conway while he was on vacation.

“An anchor client needed to know on the spot if we would commit to a new data center for them,” Murphy said. “I caught Bill as he was going down an escalator in Petra, Jordan, and told him I needed a decision on the spot.”

Conway turned around and began walking up the down escalator to keep the cellphone connection and give Murphy the go-ahead.

“That’s the kind of nimble partnership we have,” Murphy said. “I am the guy on the ground. Bill is the deal guy with deep pockets who gives broad guidance.”

Using comparable private and publicly traded data centers as benchmarks, an industry analyst conservatively values DigiPlex at more than $1 billion, or more than 350 times the original investment in the company spearheaded by Murphy and Conway. But that’s not all gain: 20 years in, Conway and Murphy have personally invested $225 million in equity and $325 million in debt to build DigiPlex and barely taken any cash out of the business.

Data centers aren’t cheap, to build or lease. Constructing a data center from scratch can cost $50 million to $100 million. Large data center customers — think Microsoft, Amazon, Google and Facebook — pay on average $25 million a year for 20,000 kilowatts of data center energy usage; that’s enough energy to power 10,000 homes in the U.S. for a year. Contracts of this size usually run seven to 10 years.

The pair were tempted to unload at least some of their interest in the company when a suitor wanted to invest in DigiPlex in 2019, valuing the business at $650 million.

“Byrne and I were partners, and someone else in the room would destroy the chemistry that helped us build a great company,” Conway said. So they stayed the course.