

REPORT REPRINT

ScaleMatrix teams up with Diagnostics to accelerate life sciences bid

DAN THOMPSON

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THE 451 TAKE

We've seen moves similar to this joint venture to create the Launch Center in small towns in other parts of the country. As an example, in Chattanooga, Tennessee, local power, fiber and datacenter provider EPB jumped onboard with the city's GIGTANK initiative, which seeks to foster tech startups that rely on the city's ultra-high bandwidth. TekLinks (then Claris Networks) also joined in by donating cloud space to the startups. In both cases, the companies were providing a service to the community while further solidifying their brands. This move is not terribly dissimilar from the notion of sending company representatives to Chamber of Commerce events or VMware User Group meetings, or sponsoring golf tournaments for local charity events, albeit at a much smaller scale. The idea is to be very visible in the community, gain trust and push to the forefront the company's way of thinking. It is a very bold move on ScaleMatrix's part, which is what will make this a fun project to keep tabs on.

CONTEXT

Founded in 2010, San Diego-based ScaleMatrix has been seeing significant growth since its birth. The company began onboarding customers in 2012, and as of 2014 had seen three-year growth of 1,400%, posting \$11m in top-line revenue for that year. That type of growth isn't sustainable over the long term, and these are numbers starting basically from zero; however, at 65 employees, ScaleMatrix is still a small and scrappy company with the ability to adapt to local markets.

San Diego is one of ScaleMatrix's two markets, with the other being Houston. San Diego is a bit of an interesting market, in that the city ranks eighth in terms of population and 17th in terms of gross domestic product (GDP) in the United States, yet it remains a relatively small datacenter market. When looking at usable space, San Diego falls behind cities like Raleigh, North Carolina (40th by population, 45th by GDP); Omaha, Nebraska (43rd by population, 52nd by GDP); and Kansas City, Missouri (36th by population, 28th by MSA GDP). The demand seen in San Diego typically comes from government, tech, healthcare and analytics; however, the vertical that the city is fairly well known for (other than the US military) has, until recently, been a bit of a cloud and colocation holdout: life sciences.

While ScaleMatrix has seen some movement from the life sciences vertical in the past, over the last 12 months the company reports seeing increased interest from the industry in what seems to be a classic 'follow your peers' type of market shift. The company has done its homework when it comes to the needs of potential customers. ScaleMatrix has HIPAA-centered programs to help clients on the road to compliance, and its Dynamic Density Control cabinet, nicknamed the 'big green giant,' bodes well in conversations about security and high-density hosting. The fully enclosed racks feature dedicated cooling, power and fire suppression, along with a software package to manage it all, and in theory limit the risk of cohabitating space with other companies. ScaleMatrix wanted to dive deeper into the life sciences space, and thus the ScaleMatrix Life Science and Technology Launch Center was birthed.

STRATEGY

The idea is a fairly simple one: Partner with a local life sciences organization and jointly build out a startup accelerator space that both parties have the opportunity to benefit from – simultaneously a community effort and business strategy. To pull it off, ScaleMatrix has partnered with Diagnostics, a San Diego-based next-generation DNA-sequencing genomics company that leverages ScaleMatrix's high-performance computing power to further its research. Together the companies are converting one of the buildings on ScaleMatrix's San Diego campus, which the firm had earmarked for a business continuity center, into the Launch Center, which will contain a fully outfitted genome lab and access to the ScaleMatrix datacenter and cloud environments.

So why is this a big deal? It turns out that being a startup in the life sciences field is a bit difficult. Setting up and maintaining a lab is an impossibly huge financial burden for any startup, and without the lab the startup would have serious problems proving new ideas. The idea behind the ScaleMatrix Life Science and Technology Launch Center is to lower the barriers to entry for future life science startups by reducing the costs associated; the startups would have the added benefit of access to the great minds at Diagnostics, which also intends to use the lab space. How does this benefit ScaleMatrix? Beyond the obvious tenancies of its building and technology space by Diagnostics and the potential startups, ScaleMatrix is well positioned to support the considerable compute and storage demands of this vertical, and gets to be seen as a trusted technology partner and active member in the greater life sciences community in San Diego. We imagine that both companies would be positioned well to make early investments in startups that show great promise – they will likely know about the innovations coming out of their labs before anyone else.

COMPETITION

ScaleMatrix is carving out a bit of an interesting niche for itself with its Life Sciences and Technology Launch Center. There are certainly no other datacenter providers in the area attacking the market in such a way. Will it work long term? Who knows? But it will be interesting to watch. Life sciences vertical aside, though, as ScaleMatrix's product set has broadened, so has its competitor list. From a datacenter perspective, ScaleMatrix will see KIO Networks/redIT and American Internet Services on deals in the San Diego market. Looking at it purely from an internal capacity point of view, ScaleMatrix has grown its colocation business by 100% since this time in 2016, signaling its ability to close sales even in the midst of that local competition.

On the cloud front, ScaleMatrix previously relied heavily on Dell's Cloud Marketplace as both a conversation starter and a means to garner business from outside its San Diego sales force. In that Marketplace, ScaleMatrix competed with many other North American providers, and we worried that, as Dell continued to add partners, ScaleMatrix ran the risk of simply being another fish in that ever-expanding pond. However, in March 2016, Dell sold off its services arm to NTT Data, including the Cloud Marketplace, and ScaleMatrix reports that the relationship is as strong as ever post hand-off. Perhaps ScaleMatrix's foray into the life sciences space will gain the company some new name recognition to further its cloud business, as well.

SWOT ANALYSIS

STRENGTHS

The ScaleMatrix ownership team has the guts to try new things and isn't satisfied with the status quo. That type of bold management could prove successful in a smaller market like San Diego.

WEAKNESSES

ScaleMatrix is still a young company, and is bound to experience some growing pains as it expands. The leadership team will need to continue its commitment to excellent hires in order to keep the success going.

OPPORTUNITIES

The hope of the new Launch Center is to crack open the life sciences community. If ScaleMatrix is able to stake its claim on that vertical, it could be a real needle-mover for the company.

THREATS

Like any new big-ticket project, the Launch Center runs the risk of being a distraction for ScaleMatrix from its core business. Management will need to keep a watchful eye on its services arm as it extends into new territories.