

# Digital Realty Trust

(NYSE: DLR)

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# Agenda

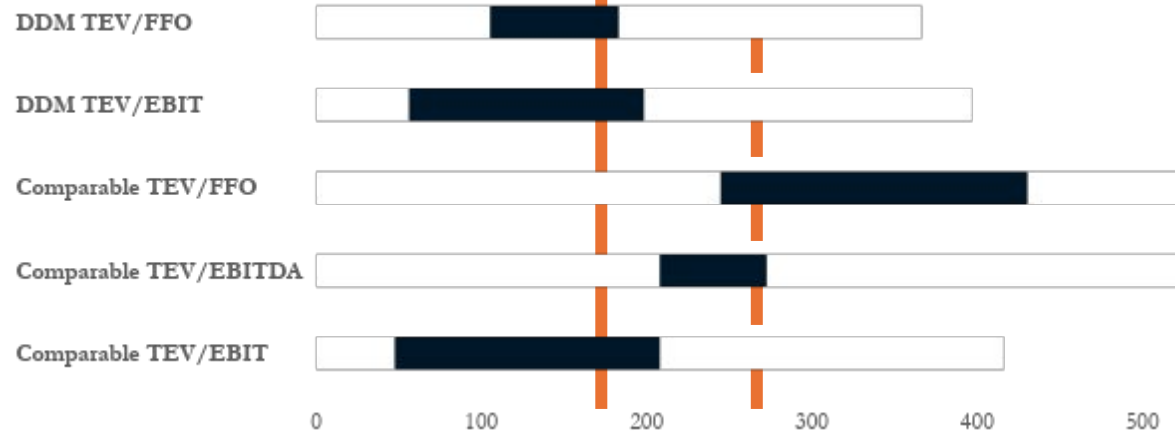
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| II  | Company Overview  |
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# Executive Summary

## Company Overview

- Digital Realty Trust, Inc., a leading global provider of data center, colocation, and interconnection solutions, serves customers across various industry verticals through its controlling interest in Digital Realty Trust, L.P. and its subsidiaries, with the parent operating as a REIT
- The Parent entity oversees the ownership, acquisition, development, and operation of data centers through the Operating Partnership (OP)
- The company provides comprehensive services, including data center solutions, colocation, and interconnection, to meet the diverse needs of its customers worldwide

## Company Valuation



## Investment Thesis

I

Margin expansion in near-term not priced in

II

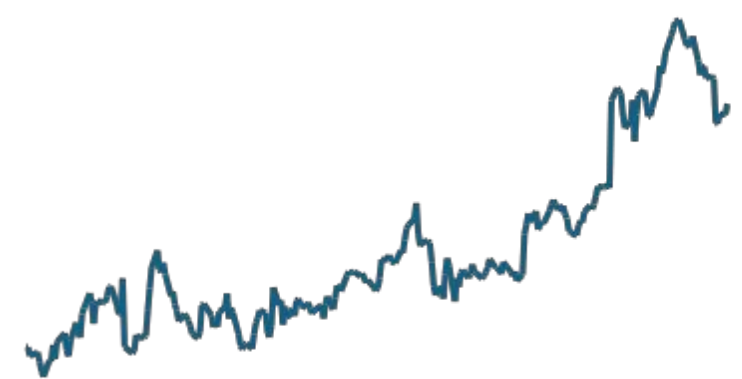
Secular Tailwinds in Data

III

Strategic Partnerships

## 1 Year Stock Chart

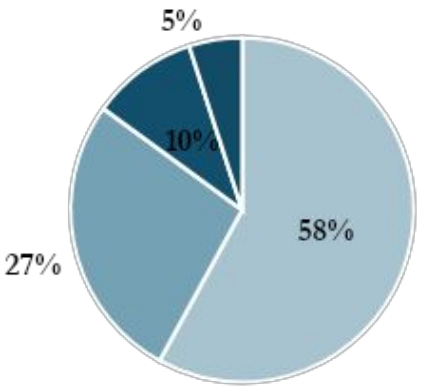
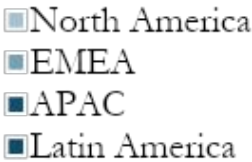
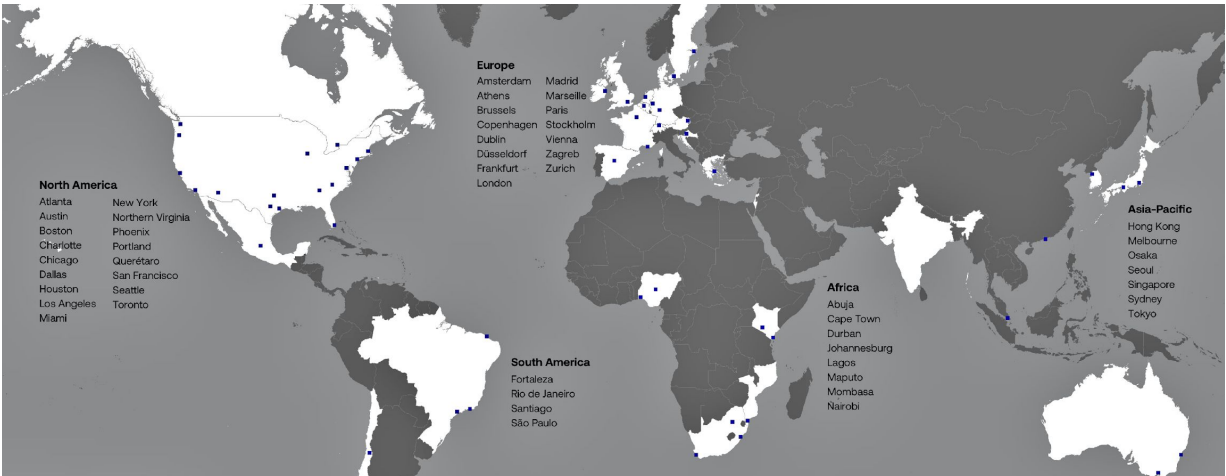
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## Overview

- Digital Realty Trust (DLR) was established in 2004 and is headquartered in Austin, Texas
- DLR is one of the largest global data center REITs (real estate investment trusts), operating over 310 data centers across more than 25 countries
- The company serves over 5,000 customers including cloud service providers, enterprises, and financial institutions, across 6 continents
- DLR’s core business is focused on designing, building, and operating data center facilities, key offerings include:
  - Colocation services
  - Hyperscale solutions for cloud providers
  - Interconnection services for network optimization
- In particular, DLR highlights its ability to provide customers with service from enterprise to hyperscale
- Key members of the leadership team include:
  - Andrew Power: President and Chief Executive Officer (CEO); has been with Digital Realty since 2015, serving as Chief Financial Officer (CFO) before becoming CEO
  - Matt Mercier: Chief Financial Officer (CFO); oversees the company’s global corporate finance organization, including treasury, capital markets, investor relations, financial planning and reporting, accounting, and tax.

## Geographical Diversity

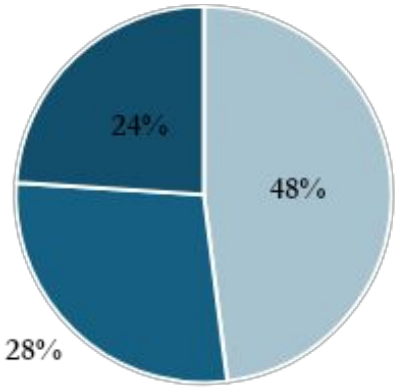


## Overview

- The data center market supports the technology industry by providing and managing the physical infrastructure for IT systems, including servers, storage, and network hardware.
- Includes a range of offerings, from traditional on-premise data centers to advanced facilities offering hosting, co-location, and managed solutions.
- Serves diverse clients, from small businesses to large corporations, delivering flexible and scalable IT infrastructure options.
- Plays a critical role in ensuring the efficient operation and security of IT systems across various industries.

## Data Center Industry Segmentation

- Server Market
- Storage Market
- Network Infrastructure Market



## Segmentation

The Data Center market is divided into three segments based on service models offered by companies:

1. **The Server Market** encompasses resources and services related to servers, which are essential for hosting websites, managing databases, and supporting cloud computing.
2. **The Network Infrastructure Market** includes resources and services linked to network hardware, which are fundamental for connectivity, data transmission, and network security.
3. **The Storage Market** focuses on data storage systems, providing critical resources for data archiving, backups, and recovery solutions. The storage market can be further divided into three categories:

1. **Hyperscale Providers** (AWS, Microsoft Azure, Google Cloud)
2. **Colocation Providers** (Equinix, Digital Realty Trust)
3. **Storage Manufacturers** (Seagate, Western Digital, & Toshiba)

There are three main methods for servers in data centers to access storage devices: Direct-Attached Storage (DAS), Network-Attached Storage (NAS), & Storage-Area Network (SAN)

# Competitive Landscape

## Hyperscale CSP Providers

Leading hyperscale cloud service providers (CSPs) offer a variety of storage options, from local SSDs attached to virtual machines to zonal/regional persistent disks and scalable object storage buckets. The following hyperscale CSPs offer object storage solutions:



## Colocation Providers

In colocation data centers, customers rent space for their servers and storage infrastructure from providers like Equinix and Digital Realty, which handle building maintenance, power, cooling, security, and connectivity. Customers supply, install, configure, and manage their own storage hardware within the rented space.



## Storage Manufacturers

OEMs, namely Seagate, Western Digital, and Toshiba, manufacture and supply data center storage components like HDDs and SSDs.

The world's largest data center storage hardware providers—Dell EMC, HPE, NetApp, Hitachi, Pure Storage, IBM, and Huawei—offer a wide range of storage hardware solutions for enterprise customers.



## Growth Drivers & Emerging Trends

### Artificial Intelligence (AI)

- The data center industry in 2024 is witnessing profound growth, largely driven by the increasing demand for high-performance infrastructure to support artificial intelligence (AI), generative AI (GenAI) applications like ChatGPT, cloud computing, and data-intensive operations
- As companies across sectors integrate AI into their operations, hyperscalers and cloud providers continue to drive leasing demand in key markets and secondary regions
- This demand fuels data center expansion in new locations and presents growth opportunities for providers willing to establish facilities with higher power-per-square-foot capabilities
- Hyperscale clients, representing significant portions of leased data center demand, are expanding both domestically and internationally, helping transform local markets

### Edge Computing

- Alongside cloud and AI, edge computing is emerging as a crucial driver, supporting latency-sensitive and inference-based AI workloads by deploying smaller data centers closer to end-users
- The demand for edge services spans multiple industries, from finance to media, as enterprises need lower latency and improved data processing capabilities for real-time applications.

## Investment & Ownership Shifts

### New Investment Models

- Real estate funds are entering the market, attracted by the sustained growth in data center demand.
- Increased interest in leasing and funding next-generation data centers with scalable and sustainable designs.

### PE Involvement

- Blackstone, the world's largest alternative asset manager, completed a \$24 billion acquisition of AirTrunk, a hyperscale data center specialist in the Asia Pacific & Japan, marking the largest-ever global data center deal and Australia's largest transaction of 2024
- Deals like this both indicate equity investors' confidence in the long-term growth of data center companies and increase pressure on smaller providers, especially considering the significant consolidation in the industry



# Investment Thesis #1: Margin expansion in near-term not priced in

## Efficiency Gains from Direct Liquid Cooling

Digital Realty recently confirmed that **55% of its global data centers** will incorporate direct liquid cooling by **Q4 2024** (*August 2023*). Such liquid cooling can reduce energy consumption by **up to 30%** compared to conventional air-cooled methods currently used (*Uptime Institute Annual Survey*). In Digital Realty's most recent sustainability disclosures, the company reported an average **Power Usage Effectiveness (PUE)** of **1.3** across its newer facilities. Extrapolating from the Uptime Institute's findings, widespread deployment of direct liquid cooling could lower that PUE closer to **1.2**, translating into an **8% reduction in total energy costs**. Given that electricity expenses typically account for **40–45%** of a data center's operating costs (*CBRE Data Center Solutions*), these efficiency gains alone can bolster Digital Realty's operating margins by an estimated **2–3 percentage points**.

## Improved Top-Line via Lease Renewals

Digital Realty's ability to push rents higher upon contract renewals has proven to be a consistent driver of revenue growth. In Q2 2023, the company achieved **cash re-leasing spreads of 5.2%**, up from **4.6%** in the previous quarter, reflecting ongoing strength in tenant demand. Moreover, data from its supplemental filings shows that **approximately 2.3 million square feet** of leases are set to expire by the end of 2024, representing a sizeable opportunity to reset rents at higher levels. During the same period, management reported that **86.8%** of the total portfolio was occupied, a figure it aims to lift closer to its historical average of **90%**. Even a modest **4–5%** rent increase on these renewals could produce an incremental **\$35–\$45 million** in annual revenue, potentially translating into a **50–70 basis point** boost in overall operating margins once combined with cost-saving measures in other areas.

As of Q3 2023, consensus estimates for Digital Realty's 2024 EBITDA margin sit at around **58.0%**. This relatively modest forecast contrasts with management's stated expectations that improvements from direct liquid cooling and higher re-leasing spreads could drive an additional **100–150 basis points** of margin expansion, which by our analysis is **a modest stated expansion**. The gap between these figures suggests that many analysts are either unaware of or underestimating the full impact of Digital Realty's strategic initiatives—particularly the sizable operational cost savings and enhanced revenue potential—which in turn may mean that the market is **not fully pricing in the company's near-term margin upside**.





# Investment Thesis #2: Secular Tailwinds in Data & Strategic Partnerships

## Mission-Critical Infrastructure

The demand for data storage and computing capacity is surging due to global digital transformation, cloud adoption, and AI advancements. The amount of global data generated is expected to grow at a **CAGR of 23% through 2025**, reaching **175 zettabytes**. As one of the largest global providers of data center solutions, DLR is strategically positioned to cater to the high demand especially with its specialized hyperscaling offerings as the cloud computing market is projected to grow from **\$483 billion** in 2023 to **\$1 trillion** by 2030.

Currently, hyperscalers are unable to keep up with demand. DLR's FastConnect methodology is fueling infrastructure expansion at a global scale with a target of **436MW** within a year. Same-store-growth guidance sits at around **3-4%**, but is likely to exceed expectations in our view especially as rates accelerate due to a phase-in of lease expirations.

With over **300 data centers** across **six continents**, DLR benefits from powerful secular growth trends, most prominently the globalization of data usage and cloud adoption. As AI proliferation leads to data requisitioning in remote regions at scale, DLR is uniquely positioned to run point on this provision by leveraging renewed partnerships with leading multi-cloud deployers, telecommunications providers (as 5G rollout becomes worldwide), and a vast existing client portfolio. Their 64% renewable energy base, upcoming long-term tenant contracts, and dividend yield above **4.5%** offer a blend of growth and cash flow. Recent expansion into emerging markets such as South Korea and Mexico also positions DLR to capture incremental demand. Their current valuation is attractive compared to the historical Price-to-FFO ratio (**15.2x vs 18x-20x**), and DLR thus represents an attractive, defensible investment in a rapidly digitizing world.

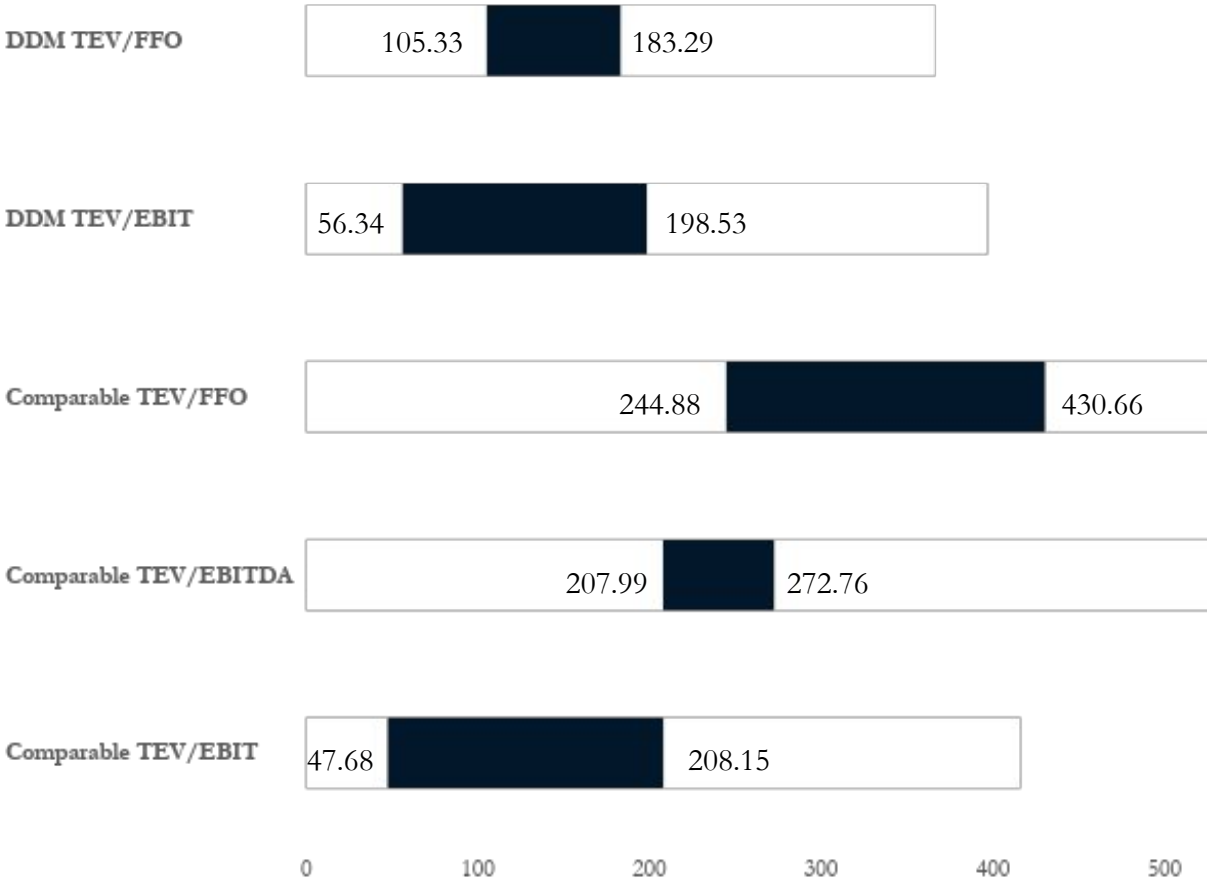
## Strengthening Collaborations With Oracle

DLR is the key partner for Oracle's OCI, a service providing enterprises with private low-latency connection to Oracle's cloud services. DLR uniquely uses interconnection solutions to migrate their core systems to Oracle Cloud, allowing clients to bypass the public internet for faster and more secure data transfer. As Oracle continues to scale their Autonomous Database and enterprise cloud offerings, DLR assures their scalability by supporting the underlying infrastructure.

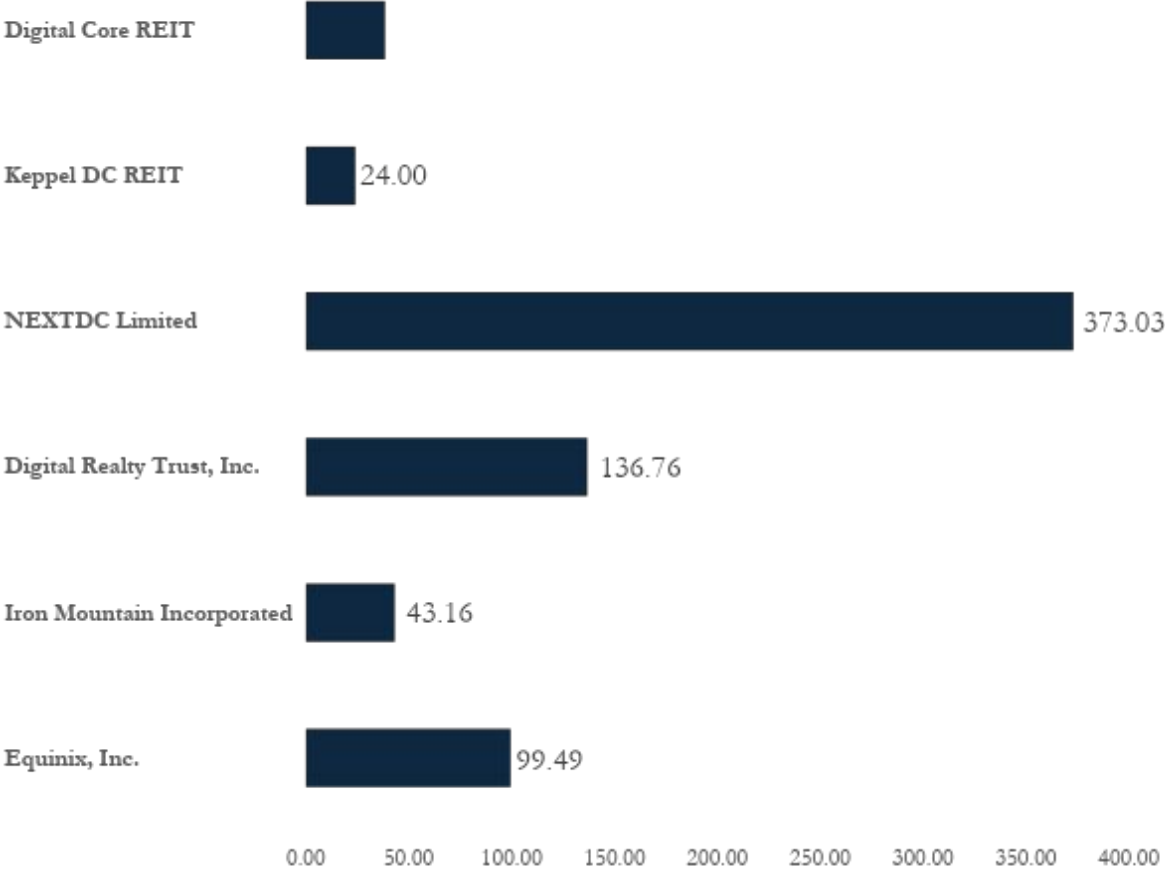
Their collaborations with other cloud providers have recently seen major technological improvements, including Google multi-cloud enablement, Microsoft global collaboration, and AWS hyperscale deployment. Their long-term partnerships with leaders in green infrastructure also lets them serve as responsible stewards of data in an increasingly **environment-focused market**.



## Football Field Analysis

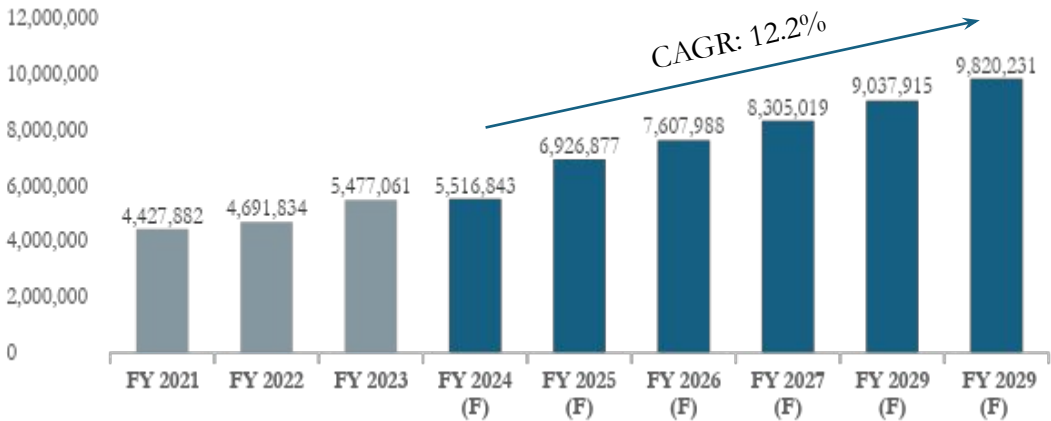


## Public Comparative Analysis (TEV/EBIT)



Dividend Discount Model

|                |
|----------------|
| WACC           |
| 7.49%          |
| Dividend Yield |
| 2.53%          |
| EV/EBIT        |
| 127.45x        |

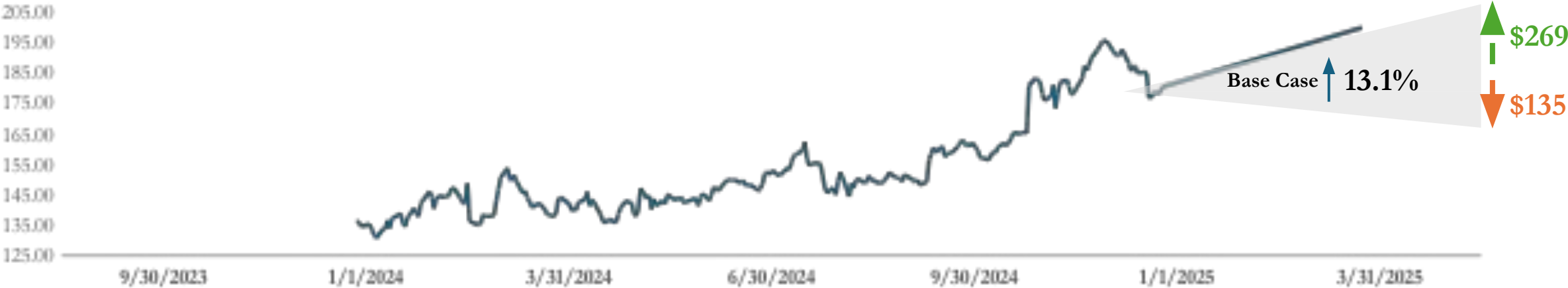


Price Target

\$149.4 (-16%) - \$297 (67%)

| Terminal Growth | WACC   |       |       |       |       |       |
|-----------------|--------|-------|-------|-------|-------|-------|
|                 | 198.53 | 8.5%  | 8.0%  | 7.5%  | 7.0%  | 6.5%  |
|                 | 0.5%   | 149.4 | 161.9 | 176.4 | 193.3 | 213.3 |
|                 | 1.0%   | 156.5 | 170.3 | 186.5 | 205.6 | 228.6 |
|                 | 1.5%   | 164.5 | 180.0 | 198.3 | 220.2 | 246.9 |
|                 | 2.0%   | 173.8 | 191.3 | 212.2 | 237.7 | 269.2 |
|                 | 2.5%   | 184.6 | 204.6 | 229.0 | 259.1 | 297.2 |


Weighted Average Price Target



| Risks |  | Mitigants   |
|-------|--|---|
| I     | Rising Interest Rates & Financing Costs        | DLR has been quietly de-levering since late 2023. Will likely be able to refinance existing debt at a lower rate. |
| II    | Competitive Pressure from Hyperscale Providers | DLR offers top-of-the-line features, including their strategic partnerships and tech innovations.                 |
| III   | Regulatory and ESG Compliance Risk             | DLR partners with green data providers and is committed to clean energy usage.                                    |
| IV    | Technological Obsolescence & Tenant Needs      | DLR's international presence (unique among hyperscalers) should diversify demand enough.                          |

# Appendix

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|   |   |           |           |             |             |             |             |             |             |
|---|---|-----------|-----------|-------------|-------------|-------------|-------------|-------------|-------------|
| <div></div> <div>(in thousands)</div> | Digital Realty Trust (NYSE: DLR) Cash Flow Build-Up |           |           |             |             |             |             |             |             |
|   | FY 2021   | FY 2022   | FY 2023   | FY 2024 (F) | FY 2025 (F) | FY 2026 (F) | FY 2027 (F) | FY 2027 (F) | FY 2028 (F) |
| Operating Revenues  | 4,427,882   | 4,691,834 | 5,477,061 | 5,516,843   | 6,926,877   | 7,607,988   | 8,305,019   | 9,037,915   | 9,820,231   |
| COGS (Rental Property Maintenance & Operating)  | 1,570,516   | 1,825,817 | 2,381,666 | 2,241,429   | 2,758,024   | 2,968,632   | 3,175,801   | 3,386,936   | 3,606,505   |
| % of Revenue  | 35.47%  | 38.91%    | 43.48%    | 40.63%      | 39.82%      | 39.02%      | 38.24%      | 37.47%      | 36.73%      |
| SG&A (Other Operating Expenses)   | 2,163,367   | 2,276,049 | 2,570,934 | 2,721,209   | 3,331,297   | 3,567,388   | 3,796,870   | 4,028,635   | 4,267,917   |
| % of Revenue  | 48.86%  | 48.51%    | 46.94%    | 49.33%      | 48.09%      | 46.89%      | 45.72%      | 44.57%      | 43.46%      |
| EBIT  | 693,999   | 589,968   | 524,461   | 554,205     | 837,557     | 1,071,968   | 1,332,348   | 1,622,344   | 1,945,809   |
| Funds From Operations (FFO)   | 1,842,971   | 1,819,396 | 1,915,747 | 1,983,155   | 2,123,069   | 2,257,874   | 2,394,072   | 2,531,264   | 2,676,318   |
| % Growth in FFO   |   | -1.28%    | 5.30%     | 3.52%       | 7.06%       | 6.35%       | 6.03%       | 5.73%       | 5.73%       |
| (in millions)   |   |           |           |             |             |             |             |             |             |
| Cash  | 143   | 142       | 1,626     | 2,611       | 2,611       | 2,611       | 2,611       | 2,611       | 2,611       |
| Non Controlling Interest  | 519   | 2,039     | 1,879     | 2,317       | 2,041       | 2,041       | 2,041       | 2,041       | 2,041       |
| Debt  | 13,448  | 16,489    | 16,445    | 8,495       | 8,495       | 8,495       | 8,495       | 8,495       | 8,495       |
| Multiples (EBIT, EBITDA, FFO)   |   |           |           | 45.48x      | 45.48x      | 45.48x      | 45.48x      | 45.48x      | 45.48x      |
| Enterprise Value  |   |           |           | 90,202,439  | 96,566,300  | 102,697,853 | 108,892,689 | 115,132,779 | 121,730,456 |
| Equity Value  |   |           |           | 82,001,939  | 88,641,150  | 94,772,853  | 100,967,689 | 107,207,779 | 113,805,456 |
| Share Price   |   |           |           | 247         | 267         | 286         | 304         | 323         | 343         |
| Dividend  |   |           |           | 6.25        | 6.76        | 7.23        | 7.70        | 8.18        | 8.68        |
| PV of Dividend  |   |           |           | 6.14        | 6.18        | 6.14        | 6.09        | 6.01        | 5.94        |
| Share Price Calculation   |   |           |           |             |             |             |             |             |             |
| PV of Sum of Stage 1 Dividends  | 36.51   |           |           |             |             |             |             |             |             |
| Stage 2 Terminal Value  | 100.58  |           |           |             |             |             |             |             |             |
| PV of Stage 2 Terminal Value  | 69  |           |           |             |             |             |             |             |             |
| Implied Value Per Share (\$)  | 105.33  |           |           |             |             |             |             |             |             |

