

Exploring New Horizons in the Ever-Expanding Universe of Cloud Services

VLOOKUP Partners

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Glossary



Glossary of Terms

IDC	International Data Corporation	Tb/s or Tbps	Terabits per second
IaaS	Infrastructure as a Service	GW	Gigawatt
YoY	Year over Year	GB	Gigabyte
R&D	Research and Development	REIT	Real Estate Investment Trust
IoT	Internet of Things	IBX	Internet Business Exchange
AI	Artificial Intelligence	CAPEX	Capital Expenditures
PaaS	Platform as a Service	AFFO	Adjusted Funds From Operations
SaaS	Software as a Service	EBITDA	Earnings Before Interest, Taxes, Depreciation, and Amortization
IT	Information Technology	ARR	Annual Recurring Revenue
ITes	IT enabled services	ESG	Environmental, Social, and Governance
BFSI	Banking, Financial Services, and Insurance	(Dys-)Synergies	Synergies
USD	United States Dollar	COGS	Cost of Goods Sold
DC	Data Center	OPEX	Operating Expenses
CAGR	Compound Annual Growth Rate	NPV	Net Present Value
EMEA	Europe, the Middle East, and Africa	G&A	General and Administrative Expenses
APAC	Asia-Pacific	EV	Enterprise Value
GTS	Global Technology Services	LTM	Last Twelve Months
M&A	Mergers and Acquisitions	FY	Fiscal Year
RHEL	Red Hat Enterprise Linux	P/AFFO	Price to Adjusted Funds From Operations ratio
G2000	Global 2000 companies	DCF	Discounted Cash Flow
Tb	Terabits	EBIT	Earnings Before Interest and Taxes

Glossary



Glossary of Terms

ERP	Enterprise Resource Planning	BOM	Bill of Materials
FX	Foreign Exchange	BPO	Business Process Outsourcing
MCC	Merchant Category Code		
NFC	Near Field Communication		
OTP	One-Time Password		
PCI DSS	Payment Card Industry Data Security Standard		
POS	Point of Sale		
PSD2	Payment Services Directive 2		
RTP	Real-Time Payment		
SCA	Strong Customer Authentication		
SME	Small and Medium-Sized Enterprises		
TAN	Transaction Authentication Number		
UATP	Universal Air Travel Plan		
VCC	Virtual Credit Card		
ARPU	Average Revenue Per User		
B.O.T.	Build, Operate, and Transfer		
B2B	Business-to-Business		
B2C	Business-to-Consumer		
B2C2B	Business-to-Consumer-to-Business		
B2G	Business-to-Government		
BIC	Bank Identifier Code		



Executive Summary

The Right Course of Action

IBM should NOT acquire Equinix ...

... instead, Megaport is preferable

Financial Summary



- Our multiples and DCF valuation indicate **Equinix's equity is currently 10.2% overvalued**
- It is likely that Equinix's shareholders will require a **total premium of 46%** on top of current market cap to sell its share
- The purchasing price does **not justify USDb 14.7 in estimated synergies** (after adjusting for Post M&A integration costs)

Feasibility Summary



- Even in the most optimal financing case, the acquisition will result in **significant EPS dilution of about 14%**
- Cross ownership & dispersed ownership structure could be a significant obstacle given **Equinix's anti takeover provision & REIT disqualification post-merger**
- The acquisition leaves IBM space and ability to hinder its rivals which potentially **raises Anti-trust concern and triggers investigation**

Alternative Solution Summary



Megaport

- **An affordable deal** to help IBM enhance Direct Link service accessibility and interconnect customers across data centers worldwide without purchasing capital intensive infrastructure asset.
- IBM's current **financial capabilities permit** a majority stake acquisition or even full buyout of Megaport without increasing financial constraints
- **IBM only need to pay 27% premium** over the current market price to acquire Megaport.

Industry Overview

Dynamics That Shape the Industry

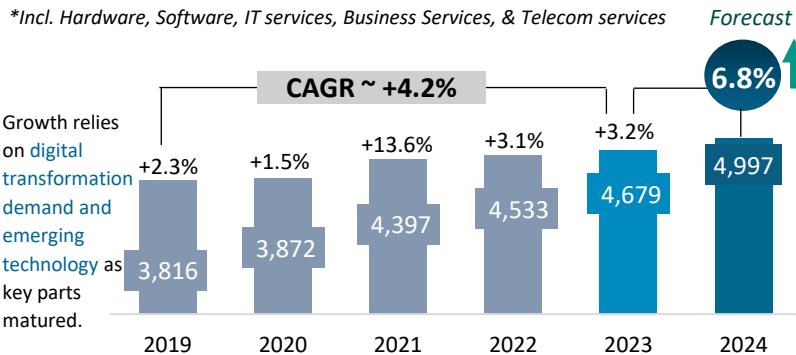
Worldwide IT Spending Recent Landscape

Following the stagnant crises period, worldwide IT spending is expected to harvest recovery fruit from 2024 (+6.8% YoY), backed by the shift from delayed IT plans in 2023, executing R&D to adopt just launched technologies, and ongoing expansion of cloud investments.

Growth bounces back, the main focuses still be US & WE

Worldwide IT Spending*, 2019 – 2024, USD Billions

*Incl. Hardware, Software, IT services, Business Services, & Telecom services



Growth relies on digital transformation demand and emerging technology as key parts matured.

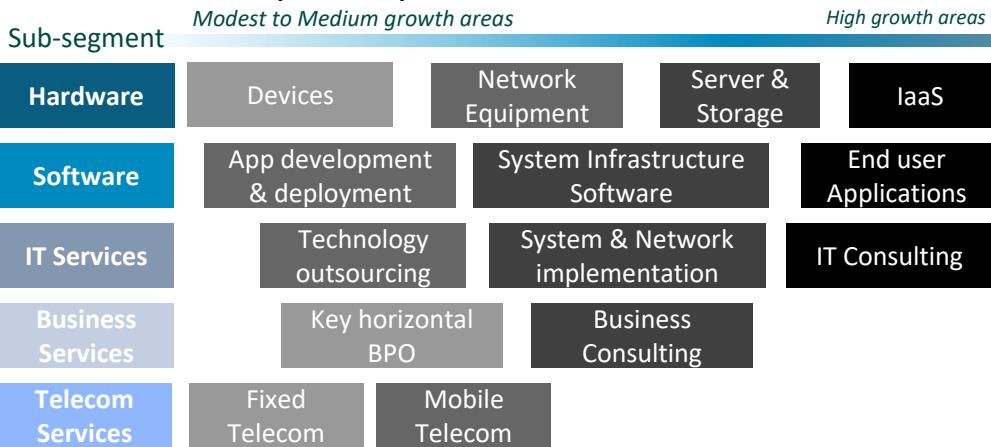
Major Markets Landscape – US & WE as core hub. Despite emerging potential of PRC market, geopolitical issues & strict privacy policy to constrain the entrance of US tech giants.



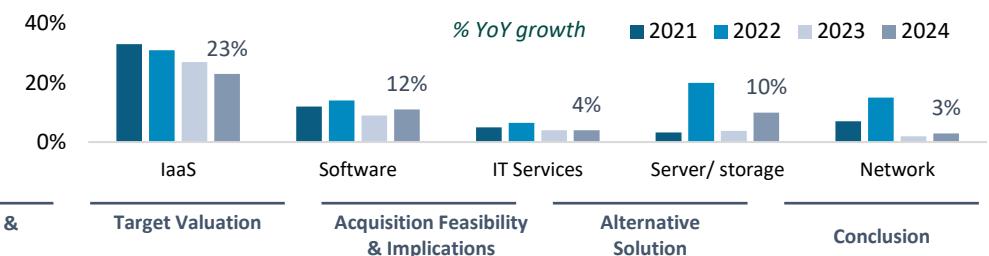
Source: Gartner, IDC, and KPMG

Shifting to High-value segments to serve on-going huge demand for cloud & AI

IDC's official IT Industry Taxonomy, 2018



IaaS, Software, and Server/ Storage believed to lead the industry growth in 2024 to support rising investment in cloud transformation and upgrade



Why Cloud Transformation Notably Drive Significant Portion of IT Spending Worldwide

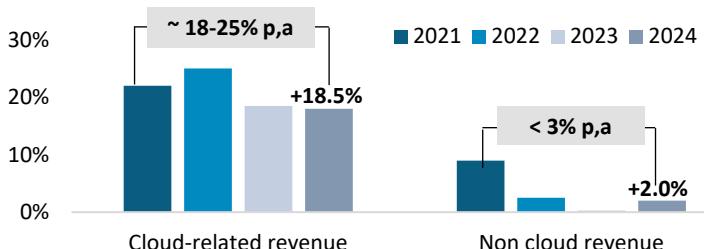


Cloud Adoption Surges, Catalyzing Digital Transformation and Elevating Global IT Investments and Innovations.

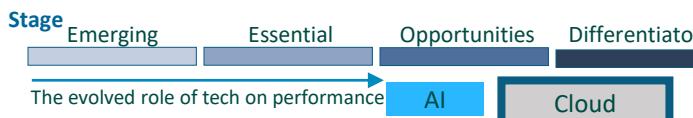
Cloud has become a more important performance differentiator, ... and demand for cloud infrastructure is forecasted to reach 20% YoY increase in 2024

Worldwide IT Spending Growth By Deployment Type (%YoY)

Cloud-related spending categories significantly exceed all remaining categories overtime

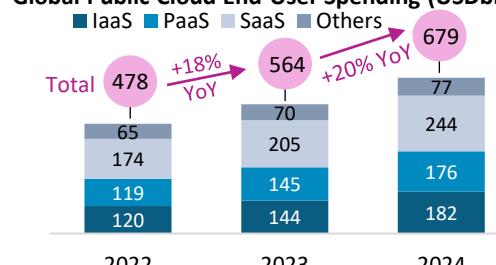


Tech Rank by Enterprise Revenue Impact



Source: IDC, Gartner, IBM Institute for Business Value

Global Public Cloud End-User Spending (USDbn)



Top 3 Giants consistently hold ~65% market share in public cloud areas, thanks to first-comer positions and vast infrastructure back-up.

Things Not possible without Cloud

- Virtual Work
- Video Streaming
- Payments
- Extensive Drone & Robotic Deployment
- Significant Citizen Development
- AI for many
- Commercial marketplaces

Significant Evolution as a Result of Cloud Enablement

- Fintech
- Metaverse/ VR
- Video conferencing
- Virtual Medicine
- Democratization of Tech
- Machine learning
- Voice Activation
- Crypto, Web3
- Ride sharing
- IoT/ Edge
- Open APIs
- Synthetic Data
- Super apps

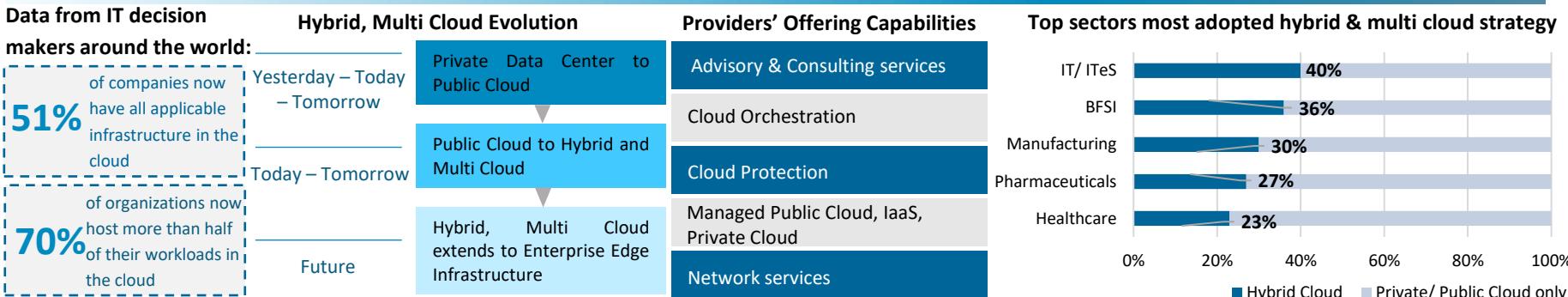
- Foreseen catalysts for rising cloud adoption worldwide:
- By 2025, there will be ~1.2mn Exabytes of incremental enterprise data expected to be created & utilized across public cloud & private data centers.
 - GenAI, Edge, Blockchain, and other cutting edge technology launches trigger the adopters' demand for upgrading cloud facilities.
 - Digital infrastructure advancement across major markets (improving broadband network & prices; density of servers & data centers; and 5G investments) continuously accelerate worldwide enterprises' cloud adoption readiness.

Capturing mainstream end user segment, public cloud has been widespread adopted with expressive pace.

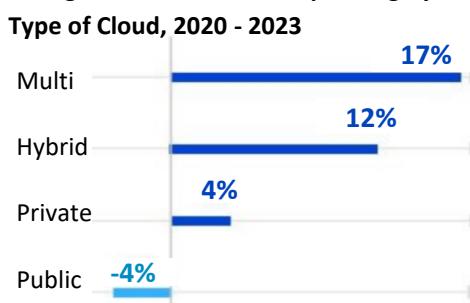
Hybrid and Multi Clouds Are Creating The Future

The hybrid multi cloud architecture - a blend of on-premises, private cloud, and public cloud services with orchestration between the platforms, represents the next frontier in enterprise IT – whose potential addressable market is estimated to reach USD 37.5bn by 2026

Where Hybrid Multi Clouds Can Help...



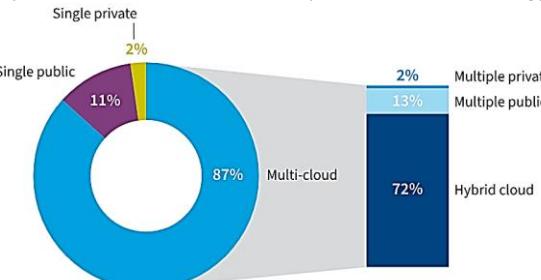
Changes in the share of IT Spending by Type of Cloud, 2020 - 2023



Source: Flexera, IBM Institute for Business Value, Omdia, Gartner

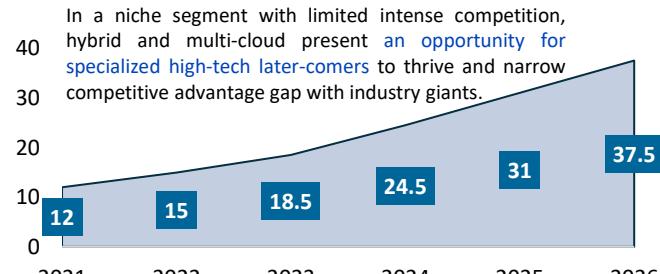
More Organizations Embrace Hybrid Multi-Cloud

On an average, organizations currently use ~ 2.6 public cloud and 2.7 private cloud in line with their hybrid multi-cloud strategy.



Market size forecast to 2026:

Hybrid & Multi-cloud Management (USD bn)



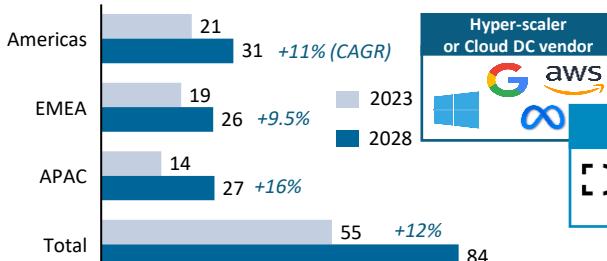
The Upstream Dynamics: Data Center Interconnect Market Overview



As digital transformation impacts every sector, the demand of both enterprises and IT providers, for data storage infrastructure and private interconnection to exchange data among stakeholders – rising rapidly

Surging Demand & Supply shortage foster Collocation Providers' Growth

Server, storage, and network consumption in data centers (Gigawatt)



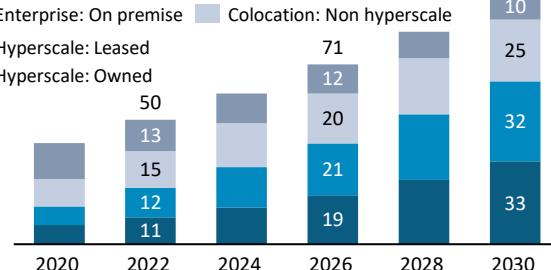
Primary Growth drivers:

- Surging demand for cloud, AI & analytic, and IoT adoption. Recently, DC demand has been added up by **edge computing, multi-cloud, and hybrid-cloud expansion**.
- Americas holds the largest share of ~40%, while APAC markets are expected to grow at most rapid pace.

Data center power consumption by participants (Gigawatt)

Hyper-scalers become the most demanding customers:

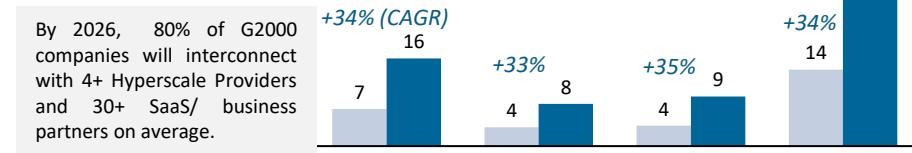
Under pressure of adopting new technologies launched, hyper-scalers tend to lease out DC powers aside their already massive DC capacity to meet expansion.



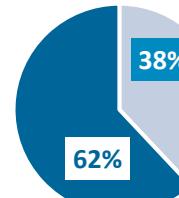
Mutually, private Interconnection and data exchange practices reinforced

Worldwide interconnection bandwidth capacity (Ths Tbps)

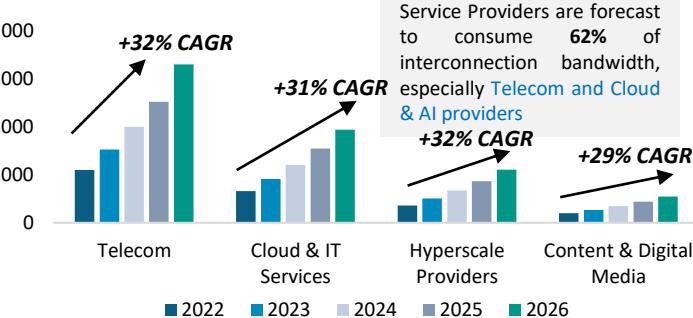
Interconnection is rapidly growing on a global scale, until 2024, interconnection bandwidth is even forecast to be **15 times larger than the public Internet**. APAC already has the fastest-growing core interconnection bandwidth and edge metros globally.



Global bandwidth usage mix (%)



Interconnection Bandwidth Consumption 2022 – 2026, Among Services Provider Customers (Tbps)



Company Analysis

1

IBM

2

Equinix

Company Overview | IBM



IBM is the global leading IT service company in the world with current portfolio built around hybrid cloud and artificial intelligence (AI)

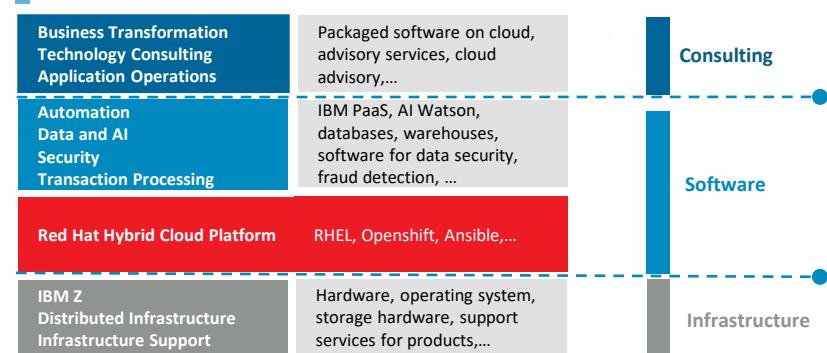
Company overview

- **IBM** is a multinational technology corporation with over 100 years of history. The tech giant was mostly known for **its technical achievements** that related to hardware and software products; including computers, servers, storage systems and networking equipment.
- Since its founding in 1911, the Big Blue always remained itself as a frontier of computing with the ability to **consistently innovate** and **adapt to the changing technological landscape**.
- Part of IBM's strategy revolves around divesting out of capital intensive businesses while **strengthening their platform-centric portfolio through M&A**.
- The company's revenues are currently segmented into four distinct areas: **Software, Consulting, Infrastructure** and **Financing**, capturing its strategy to provide **an uniquely integrated services** for clients.
- Today IBM focuses on building a portfolio around **hybrid cloud and AI**, the two most transformational technologies of our time. The company hopes to **deliver a go-to-market approach** across their expanding ecosystem of partners

... 5 strategies to address clients' hybrid cloud and AI needs

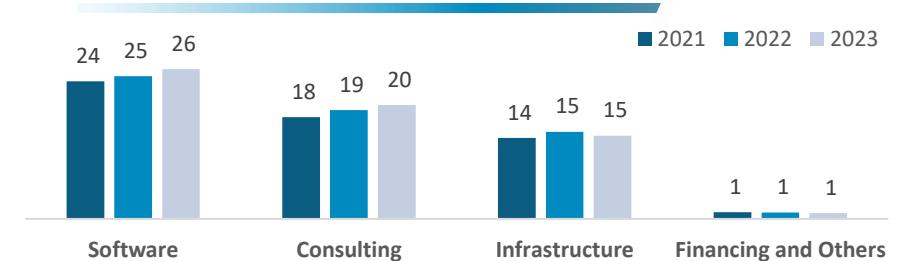


An integrated products portfolio...



...that contribute to a stable revenue performance

Revenue breakdown by services (USDbn)



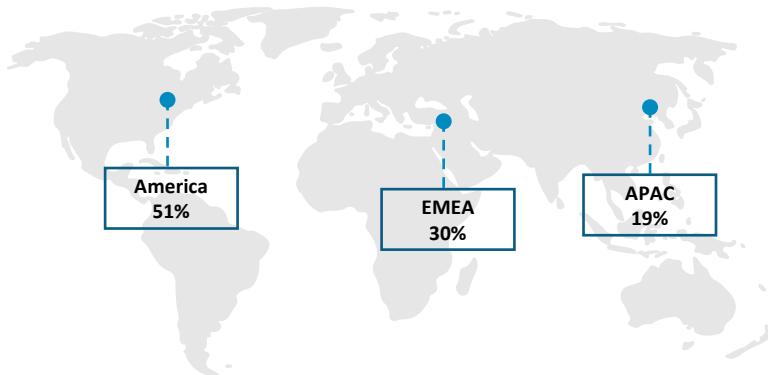
(Annual Report (IBM, 2022)). (Investor Briefing (IBM, 2021))

IBM Market Position

Low performance in the last decade has partially led to IBM's decline in its position.

Market presence

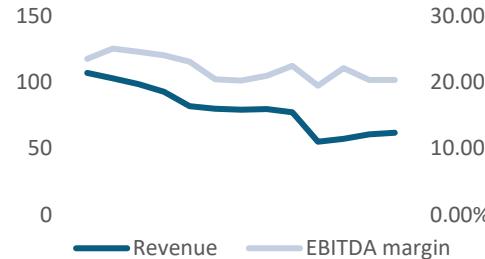
- IBM starts in the US, and it spread around the world with current in **over 175 countries**
- The company's **late entrance into the public cloud** market gave other competitors opportunity to gain significant market share, which put IBM at a disadvantage in terms of market positioning and customer adoption, featured **by low sales performance** during the last decade and public cloud **market share of only 2%**.
- With a **focus on the hybrid cloud strategy**, IBM aims to provide **specialized solutions for industry-specific companies**
- IBM's past performance across regions has been **relatively stable**, with **America leading the way**



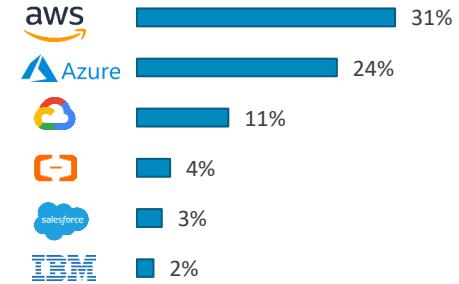
(Annual Report, 2022), (IBM Investor Briefing, 2021), (Macrotrends, 2023), (Statista, 2023)

Late adoption to technology landscape changes has caused IBM to lag behind during the past decade

IBM revenue and EBITDA margin 2010-2023



Public cloud market share in 2023 (%)



...and the acquisition of Red Hat will serve as a driving force to get the company back by capturing opportunity in Hybrid Cloud

- Integrate Red Hat's hybrid cloud capabilities into IBM's portfolio
- Gain access to existing partners and clients of 2 companies
- IBM's large footprint give Red Hat new market presence opportunity

~ \$150m

+

~ \$2b

Annual incremental revenue for every **10% adoption** to Red Hat of clients in **new market**

Annual incremental revenue for every **10% adoption** to Red Hat of IBM's **existing customers**

> \$2b

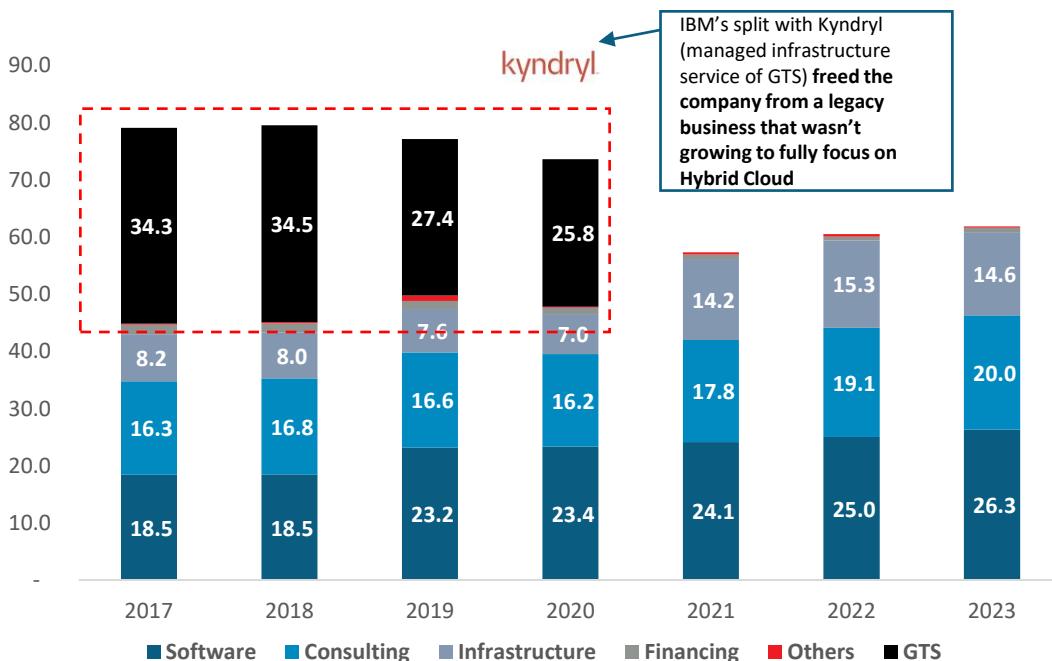
Total annual incremental revenue created

IBM's Current Business Targets

Strong shift towards Hybrid Cloud and AI as key growth areas

By spinning off GTS, IBM aim to streamline its operation and allocate more resources and attention to its hybrid cloud initiatives

IBM revenue by segment 2017-2023 (USDbn)



IBM Software and IBM Consulting help IBM capture new opportunities when expanding into hybrid cloud market.

Software

Hybrid platform & Solution: include software, infused with AI to help client manage, operate and optimize their IT resources and business process with hybrid, multi-cloud environment

Transaction Processing: include software that support clients' mission critical, on-premise workload in industry

Consulting

Business Transformation: provide strategy, process design, system implementation to improve and transform business process

Technology consulting: help clients architect and implement solutions across platform, and strategies to transform and innovate

Application operation: focus on application and cloud platform services to optimize and run cloud platform

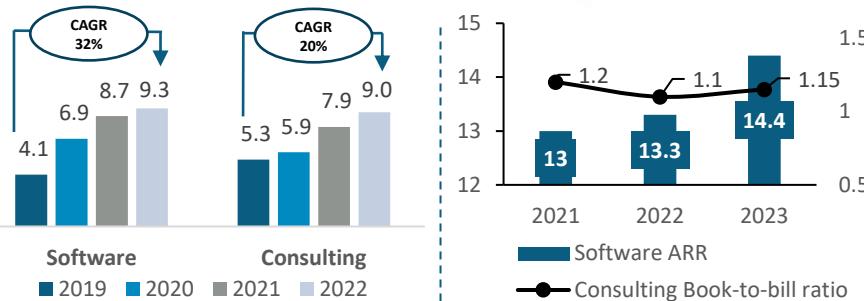
(Earning Calls (IBM, 2021). (Annual Report (IBM, 2022))

IBM's Performance In The Market

Stable performance since moving towards Hybrid Cloud, which is largely due to contribution of core businesses

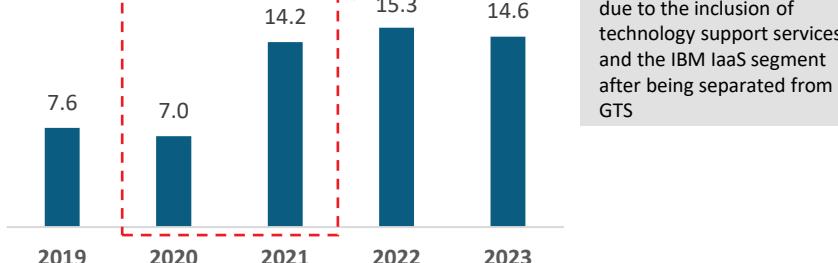
Solid and growing performance of core businesses

IBM core businesses' hybrid cloud revenue (USDbn)



Infrastructure remains a good revenue stream

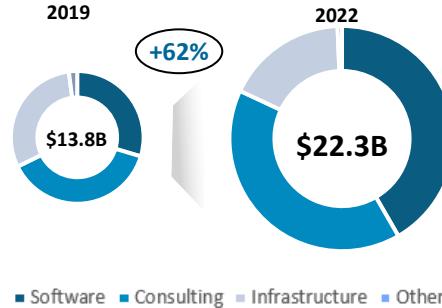
IBM's infrastructure segment revenue (USDbn)



(Form 10-K (IBM, 2023)), (Investor Briefing (IBM, 2021)), (Earning Calls (IBM, 2023))

...help IBM quickly expanding in Hybrid Cloud market

IBM's hybrid cloud growth and revenue contribution



IBM Software and IBM Consulting, which is 2 focuses of IBM on its hybrid cloud approach, contributes to more than 75% hybrid cloud revenue in 2022

...since IBM Z is essential to hybrid cloud infrastructure and the digital economy

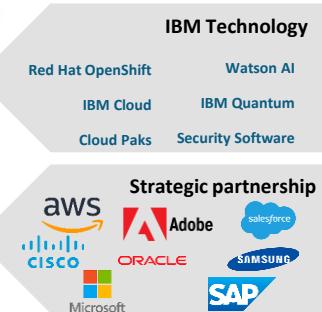
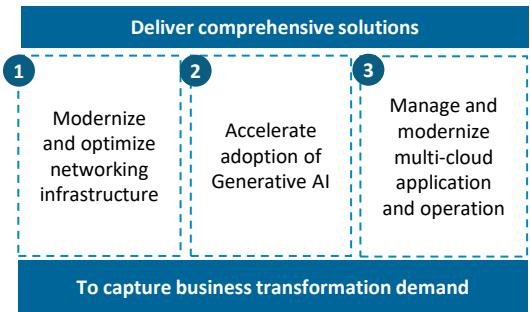
Strong business momentum driven by IBM Z



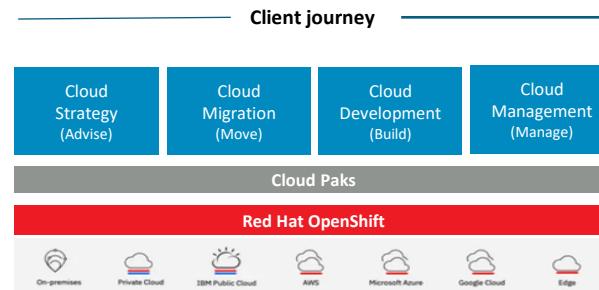
IBM's Capabilities and Strengths

IBM is positioned to be key players in the technology landscape's transformation towards Hybrid Cloud and AI

Combine integrated technology and strategic partnership



...to accelerate hybrid cloud journey by delivering end-to-end capabilities



Integrated IBM and Red Hat Services and Solutions stack as accelerators

- 80,000+ Cloud Application Service Practitioners
- Eliminate 33% of integration costs
- Reduce manual process up to 80%

Red Hat as a main fuel of growth

IBM Software and Red Hat revenue growth (%)

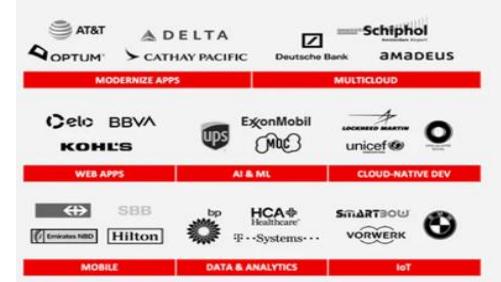


Red Hat consistently stable performance help **IBM Software** witnessed **positive revenue growth** since their acquisition

...by adding massive momentum for IBM's innovation in the platform

- **IBM's commercial organizations** drive trial, adoption, marquee customers across its installed base
- **IBM's Software** deployed on OpenShift drives platform adoption and usage
- **IBM's Consulting** migrates new workloads adding to the company's extensive technical and business expertise
- **IBM's Infrastructure** drives adoption between 2 company platforms to create integrated Hybrid Cloud Infrastructure

...through its early hybrid cloud platform leadership



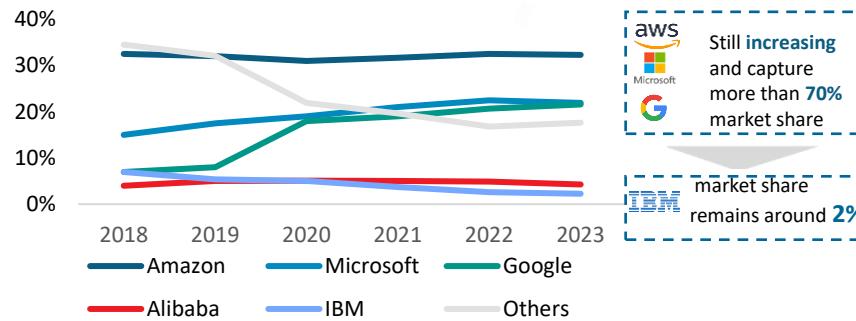
(Zdnet, 2019), (Investor Briefing, (IBM, 2021)), (Earnings Call (IBM 2023)), (Annual Report (IBM, 2022))

IBM's Primary Challenges and Opportunities

The cloud computing market shows a fierce competition among all players and specifically dominated by 3 big players

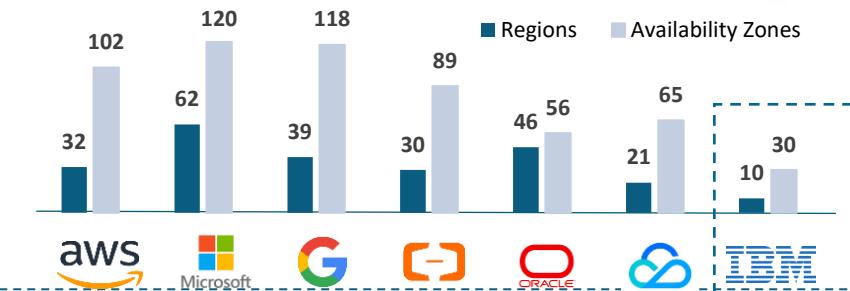
Though revenue grew, IBM's market share has been dropping

Cloud Provider market share trend



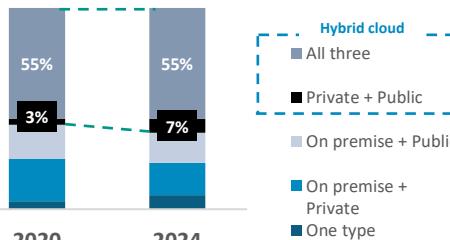
...partially reasoned by the company's late entrance to capture opportunity in public cloud market

Regions and availability zones of cloud providers



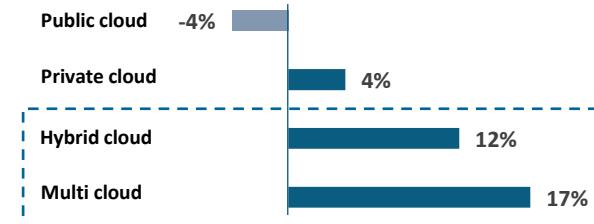
Companies are increasingly adopting hybrid cloud environment

Project cloud network implementations (%)



...showed by recent IT spending shifting towards multi and hybrid cloud

Change in IT spending by type of cloud, 20-23 (%)



...in particular industries that favor IBM's customer portfolio

Change in IT spending by type of cloud, 20-23 (%)

	Total cloud	Private	Public	Multi	Hybrid
Automotive	8%	-5%	-5%	45%	33%
Healthcare payer	11%	26%	-25%	33%	32%
Manufacturing	9%	-7%	1%	42%	34%
Retail/Consumer Banking	10%	-14%	34%	35%	26%
Retail	2%	-11%	-3%	21%	22%
Energy and Utilities	3%	-8%	-6%	25%	22%

(SynergyResearchGroup, 2023), (IBM Institute for Business Value analysis, 2023), (BCG, 2021)

Company Analysis

1

IBM

2

Equinix

Company Overview | Equinix (EQIX: US)

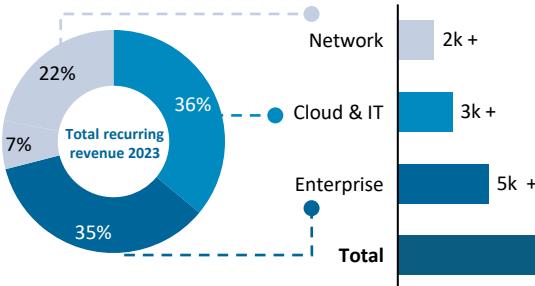
Equinix is the global leading data center colocation providers who is backing up the digital future

Company overview

- **Equinix** is the world's digital infrastructure company, interconnecting digital-first organizations, placing sustainability and security at the core. Equinix revenue segments are data center colocation, interconnection, and digital services. Its business mode is qualified as REIT.
- Founded in Silicon Valley in 1998 as a vendor-neutral multitenant data center provider, Equinix now has 260 datacenters, ~452,000 interconnections globally over 32 countries across 6 continents with branded portfolio "Equinix Platfrom"
- Equinix ranks number one globally in market share by revenue, back up by its sustainable positive growth over 25 consecutive years
- Today Equinix is focusing both on expanding retail footprint and to wholesale customer with xScale data center while enhancing its renewable energy coverage

...has attracted valuable retail customer base

Equinix's customer contribution to revenue and number by types



Equinix Annual Report, Press Release, Form 10k

The company branded multilayered portfolio "Platform Equinix"...

The IBX Physical Footprint

- 243 IBX, 17 xScale data centers around the world, located at key metros – point of global interconnection

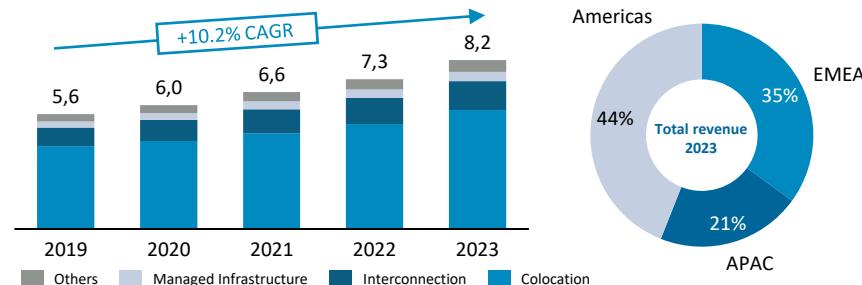


Interconnection Services

- Range of exchange and connectivity offerings that connect & enable infrastructure elements to network

...and driven EQIX's stable growth over 25 consecutive years

Revenue breakdown by services & market (US\$bn)



Equinix Overview | Colocation

Extensive global footprint and state-of-art infrastructure make it the leader

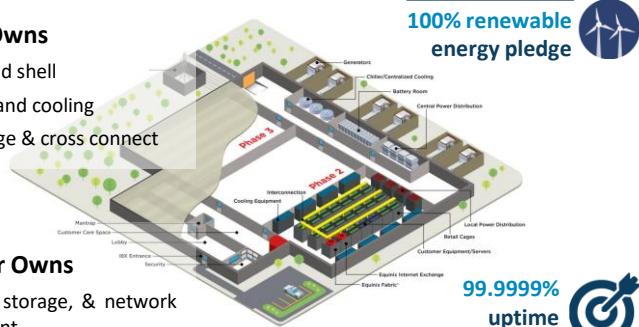
Segment overview

- Equinix Colocation** provides space, resources, and digital solution at its secure, reliable, and high performance data center, allowing customer manage data and digitalized in a cost-efficient and scalable way
- By locating data center at Equinix, customer can received comprehensive and on-demand infrastructure support to speed up digital transformation via DC services
- Possessing extensive 260 data center worldwide and diversed customer base, Equinix's colocation points as a crossroad, helps (1) customer access to vital ecosystem where stakeholders can interconnect directly, securely, and speedy; (2) Optimizing end user experience via edge access; and (3) flexibly deploy in multi & hybrid cloud environment

...with state-of-art infrastructure, is Equinix's competitive advantage...

Equinix Owns

- Core and shell
- Power and cooling
- Exchange & cross connect



Customer Owns

- Server, storage, & network equipment

Global data center footprint as the base of Equinix Platform...

243 IBX data center

Offer to retail customer

17 xScale data center

Design unique to serve hyperscaler

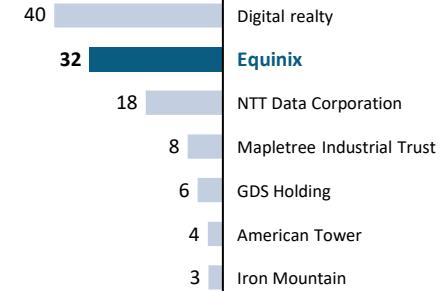
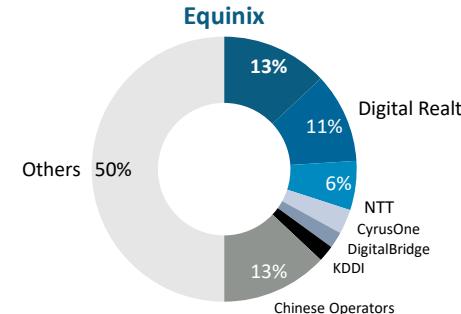
Present across

6 continents, 32 countries, 71 metros



...to lead and fuel digital transformation across all regions

Equinix's market share by revenue* (left) | Equinix capacity vs peers (mn square feet)



Equinix Overview | Interconnection & Digital Services



Forming a data center extension solution to connect and scale

Equinix Interconnection Overview

A high-way speed that facilitates data exchange with minimized cost, greater flexibility within Equinix larges ecosystem among peers of existing 452k+ interconnections



- Software-defined interconnection platform within Equinix data centers
- Allow businesses to dynamically and securely connect to cloud providers, network operators, and other businesses speedy, flexibly, and under control
- **Reduces 80% latency and 28x increase performance** compared to traditional internet



- On-demand, easy-to-deploy virtual routing service
- Establishes flexible, private Layer 3 connectivity between public clouds, colocation, and other Equinix services across its software-defined global network.
- **Simplifies and multicloud & hybrid cloud network, 90% provisioning time saved**

Equinix Digital Offering / Edge Solution Overview

Equinix edge solution help business rapidly deploy as a Service network, security and hardware across its worldwide data center footprint as customer's edge



- Allows customer to modernized networks within minutes, by deploying network functions virtualization from multiple vendors.
- Customer can deploy at edge quickly no additional hardware, **saving 50% cost**



- Empowers businesses to **provision interoperable bare metal servers** within minutes, save cost and complexity compared to traditional hardware ownership
- DevOps tools & flexible options offer **cloud-like agility & control** for vital workload

..and that help Equinix stands on top of global market share

Market shares by # of interconnection (left) & cloud on-ramps nodes(right)*



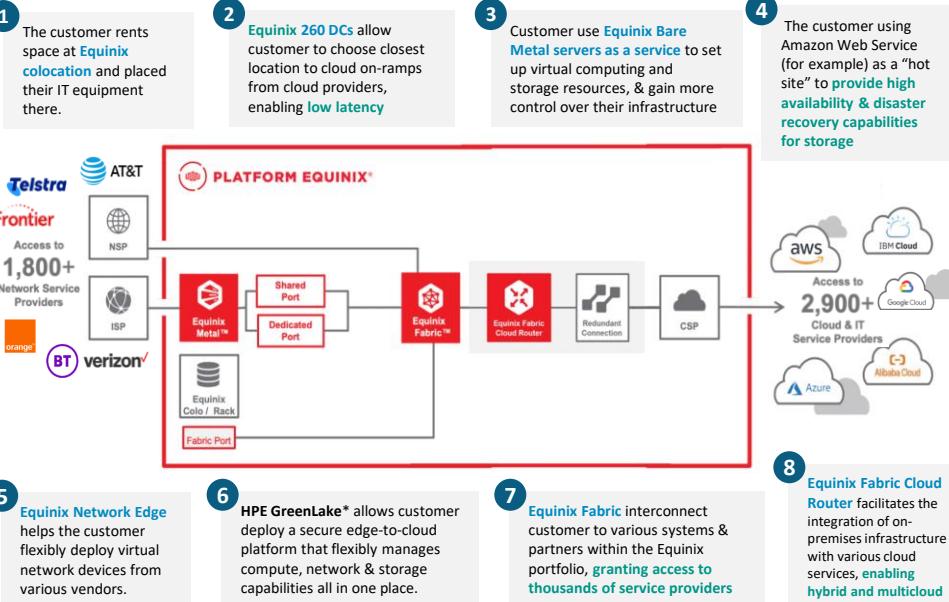
*note: based on the on-ramps node in Equinix metro of 4 largest providers (AWS, Azure, Google Cloud, and Oracle)

Equinix Annual Report, Press Release, Form 10k

Interconnection & Digital Service complement to Equinix hybrid & multicloud solution across customer journey,...

CASE...

A customer need **modernizing its on premise infrastructure** with hybrid cloud to ensure **high availability & disaster recovery (HA/DR)** while complying with **industry's stringent data protection requirement**...



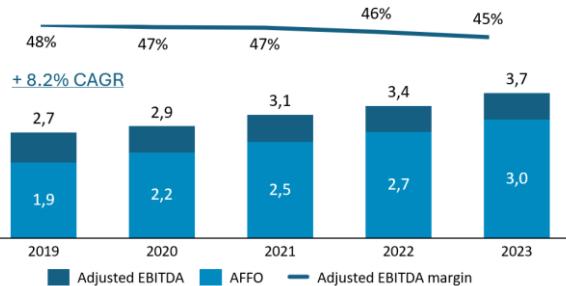
Equinix Financial and ESG Overview



Stable growth backed by relatively strong balance sheet position

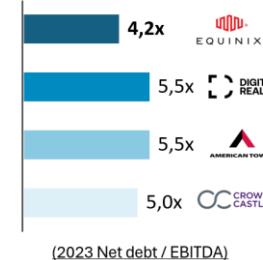
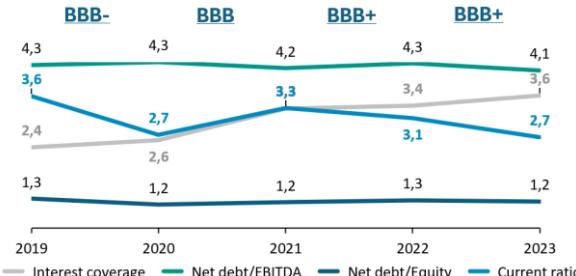
Stable growth with maintainable margin

Equinix EBITDA & AFFO performance (USDbn)



...backed by a solid balance sheet...

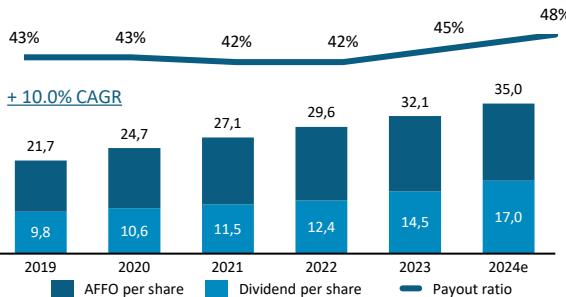
Equinix liquidity & solvency performance, and credit rating (Fitch Rating)



- Equinix possesses a **relatively strong** balance sheet for a US REIT with net debt / EBTIDA at 4.2x
- Rating **BBB+** is **conservative** due to lower assets ownership and weakening liquidity

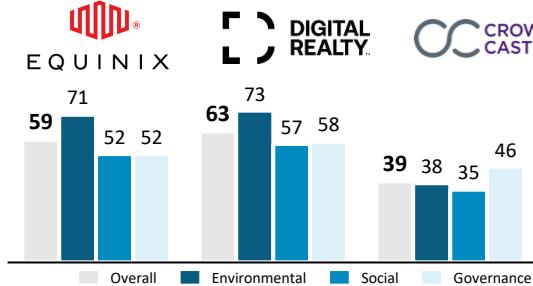
...to delivery more shareholder values...

AFFO per share & dividend per share (USD)



..with a sustainable Equinix ecosystem

Equinix S&P Global ESG Score vs peers



Environment

- 96% Renewable Coverage globally against our 100% Renewable Energy Goal
- Achieved a 23% Reduction in operational emissions from 2019 baseline

Social

- Launch **Equinix Foundation** with a \$50M contribution by Equinix
- Connecting communities with \$2M+ Donations and Grants and 37% increase in volunteering

Governance

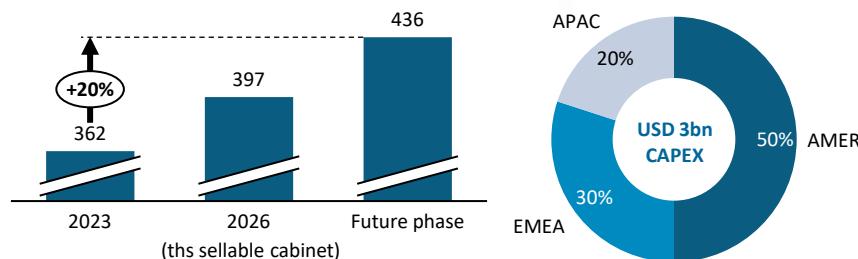
- Board ESG Oversight, with 40% of the Board Members women
- Aligning executive compensation for VP-level and above tied to our sustainability progress

Equinix's Strategy (1/2)

Expanding market footprint and hyperscale data center to ride on the AI trend

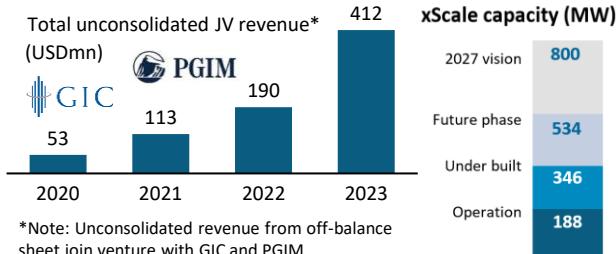
1. Expanding the platform at its core...

Retail capacity expansion plan & CAPEX allocation



- Expanding retail capacity by 10% in 2 years ahead via 49 under-built IBX global data center across 35 markets in 21 countries
- Americas is still the core market, represent 1.5bn CAPEX of Equinix in the next 2 years

Hyperscale segment past performance & capacity expansion plan



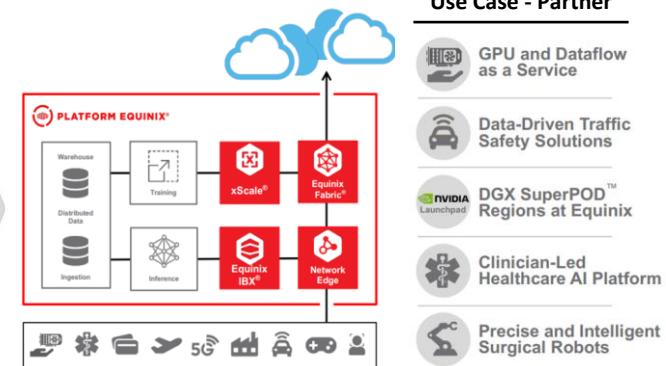
Sources: Equinix10-K

...to ride on the EQIX's advantage well-aligned AI catalyst,..

Proximity & control will shape buying decision as inference demand accelerates

AI requirement

- Data
- Cloud Proximity
- Latency
- Automation



...at the forefront of huge addressable market (AM)



Digital transformation serviceable AM

Target Valuation

Acquisition Feasibility & Implications

Alternative Solution

Conclusion

Equinix's Strategy (2/2)

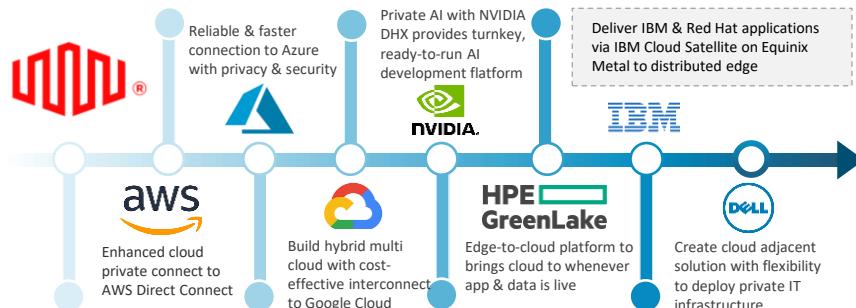
Cultivates the ecosystem with more connection, more flexibility while moving toward sustainability

2. Cultivate the ecosystem with more connection, more flexibility

Equinix's # of unique customer relationship established & 2018-2023 CAGR



Equinix's strategic partnership with top providers, facilitating hybrid multi cloud



Sources: Equinix10-K, Team Analysis

3. Equinix is expecting for...

Performance

Target growth
↑ **8-10%**
~\$12B by 2027

Financial

New developments
break-even
in 6-12 months
Maintain
investment grade

Shareholder Value

Target growth
↑ **7-10%**
10%
AFFO/share
Dividend/share

ESG

Procuring
100% renewable
energy coverage
over supply chain

To success, Equinix has to overcomes these challenges...

Power outage & shortage

The world is experiencing inflation & volatility pressure in energy market. Several factors contributing to this instability including:

- Russia & Ukraine war
- Severe weather events
- Carbon pricing mechanism

Equinix's power cost % revenue



Sustainability concern

- Data centers consume ~3% the world's total energy, mainly cooling system leading to carbon emission
- Operators are under pressure to cut energy usage & deliver carbon savings, with KPIs demanding tangible improvement. Recent Regulation including CSRD and EED



Compliance constraint

Corporate Sustainability Reporting Directive – CSRD
Energy Efficient Directive - EED

Reporting constraint

Fully auditable & standard-based ESG performance report

Cost constraint

Organizations have to launch a data center infrastructure sustainability program by 2027



Strategic Fit & Synergies

1

Qualitative
Analysis

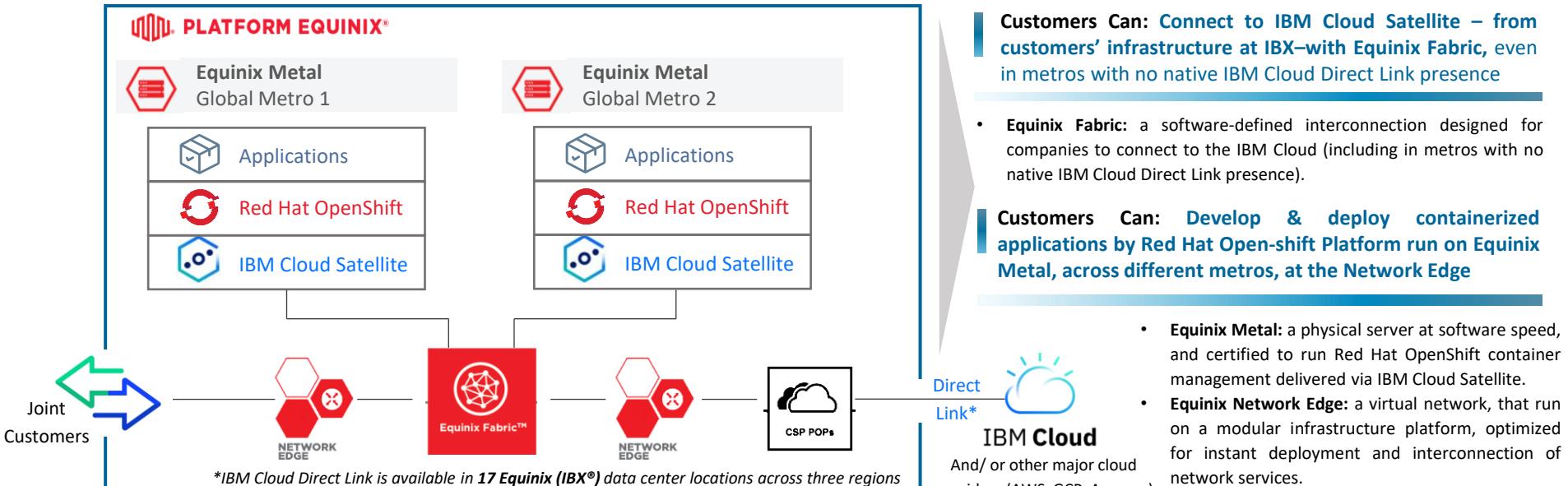
2

Quantitative
Analysis

Equinix and IBM's Symbiotic Partnership: Integrated Solutions Accelerate Hybrid Multi Cloud Journey



Businesses now can use the combination of Equinix Fabric, Equinix Metal and Network Edge virtual network services on Platform Equinix, as well as leverage IBM Cloud ecosystems (Red Hat, IBM Satellite,...) to deploy applications in hybrid multi cloud environment.



Source: Equinix, Team's Analysis

230

Across

64

EQX
Data Centers

Metros
Worldwide

IBM Direct Link on Platform
Equinix enhances direct
integration with IBM Cloud

Strategic Fit &
Synergies

Target Valuation

Acquisition Feasibility
& Implication

Executive
Summary

Industry
Overview

Company
Analysis

Conclusion

Strategic Fit Between IBM and Equinix

Historical partnerships show a promising of strategic fit in regards to leveraging Equinix's expertise in direct link and interconnection for IBM

Business Unit

Interconnection and Direct Link



- IBM focuses on providing a **comprehensive and integrated hybrid cloud platform**
- Equinix Fabric and Equinix Metal can help IBM deploy on Equinix's available data centers with **+452k interconnections**

Equinix could contribute to IBM Cloud value with direct and secure interconnection

Data Center Utilization



- Equinix has **17 xScale data centers**, which can be **uniquely customized** and **well suited** with hybrid cloud deployment
- IBM's expansion in hybrid cloud environment requires **advanced cloud infrastructure** to connect its value chain.

IBM could leverage Equinix's data centers as a strategic location for cloud infrastructure

(Annual Report [Equinix, 2023]), Team Analysis

Network & Footprint

Market footprint



- Equinix is a global leader in data center with **260 data centers around 32 countries** in the world
- IBM can **leverage Equinix as points of presence** to extend its reach to new market, creating better connections to local customers

Equinix could assist IBM in expanding connections to specific markets



Partner Collaboration



- IBM focuses on leveraging the power of partnerships to **deliver end-to-end solutions** for their clients
- Equinix has a **diversified customer base**, including leaders in Cloud & IT services.



Through acquisition, IBM cloud integrate the IT solutions of Equinix's existing partnerships with their offerings

R&D and Innovation

Hybrid Cloud & AI Development



- IBM is **all-in in Hybrid Cloud and AI** with the biggest part of their investment to create the integration of IT solution for its platform
- Equinix, as a data center and interconnection company, specialize in providing physical infrastructure services.

IBM's approach to Hybrid Cloud and AI is diversified from Equinix so integration will be complex

Innovation Opportunity



- IBM has a **strong focus on R&D** and has been a leader of technological innovation in various areas.
- Equinix's R&D activities are somewhat **limited in scope of expanding data centers** and developing interconnection solutions.

Technology capacity could be strengthened, but limited to Equinix's used due to different product offerings



Strategic Fit & Synergies

1

Qualitative
Analysis

2

Quantitative
Analysis

Generated (Dys-) Synergies Overview



We have identified three sources of potential synergies which would add a NPV valued of **USDb 24.4** to the combined entity, and one source of dys-synergy which lead to an NPV cost incurrence of **USDb 9.7**. Together, these factor add **USDb 14.7** value to the post-merger entity

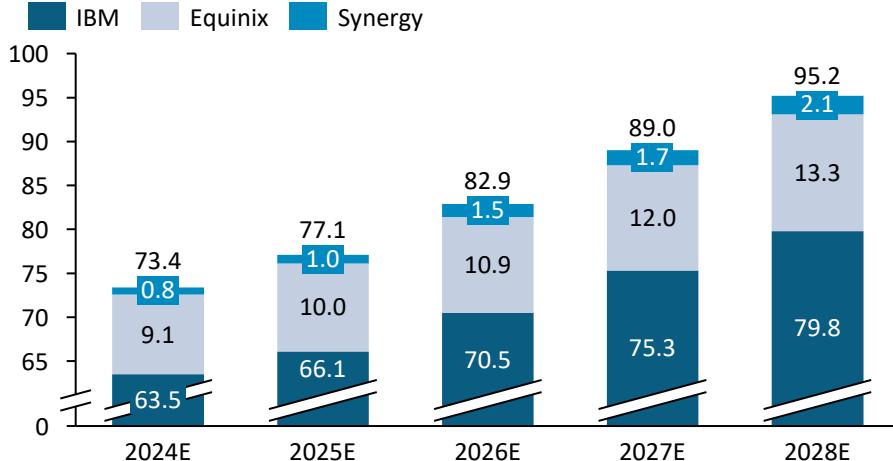
	Possible (Dys-) Synergies	Reasoning/Comment	Duration	Impact
Revenue Generation	<ul style="list-style-type: none"> Increase revenue stream thanks to combination of technology Increased partner collaboration and PoP expansion 	<ul style="list-style-type: none"> IBM Cloud is expected to benefit from Equinix's expertise in Interconnection integrated into its ecosystem ...and cross-selling opportunities from their combined customer base 	1 – 5 years	
COGS Reduction	<ul style="list-style-type: none"> Reduce infrastructure costs Streamline process and reduce external hardware and software cost 	<ul style="list-style-type: none"> Consolidate two companies' data centers bases and utilize existing facilities for COGS reduction Remove costs that incurred to research and develop certain overlapped functions for cloud environment 	1 – 5 years	
OPEX Reduction	<ul style="list-style-type: none"> Cut off overlapped function expense Better management for large-scale project 	<ul style="list-style-type: none"> Some staff in overlapped functions like G&A and R&D can be cut Combine extensive experience of both companies in managing complex projects across various industries 	0 - 3 years	
Post-M&A Integration Cost	<ul style="list-style-type: none"> Increase in expenses due to costs incurred when combine the two entities 	<ul style="list-style-type: none"> Integration cost would be huge due to (1) size, (2) partner recognition reevaluation and service terms, (3) product portfolio integration 	Lifelong	

Sources: S&P Capital IQ as at 02-Mar-24, Company website,, Team analysis

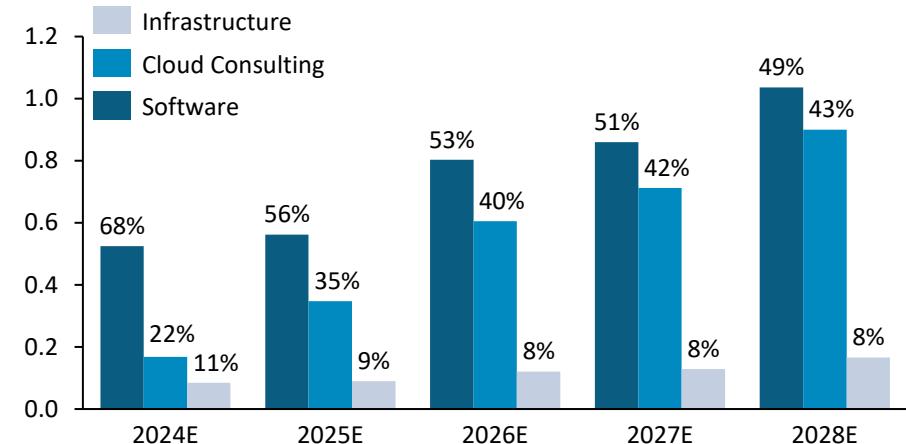
Quantified and Breakdown of Revenue Synergies

NPV Revenue synergies totals **USD^b 5.3**, contributed by the adoption of Equinix's interconnection into IBM portfolio and the ability to leverage partnerships between the two companies

Post-integration Combined Revenue (USD^b)



Revenue Synergies Breakdown (USD^b)



- Revenue synergies, particularly in terms of technology, may be limited due to the integration of the two companies primarily focusing on interconnection and direct link solutions for the cloud environment.
- However, with both companies having large customer bases in the cloud computing sector, the entity can leverage these partnerships to scale up and enhance competitiveness for its product portfolio. This explains why the majority of revenue synergies come from "Cross Sale" and "Increased pricing power"
- Synergies are expected to grow gradually due to the momentum from new IT solutions created, but somewhat limited due to the industry-specific nature of Equinix.

Total Revenue Synergies NPV

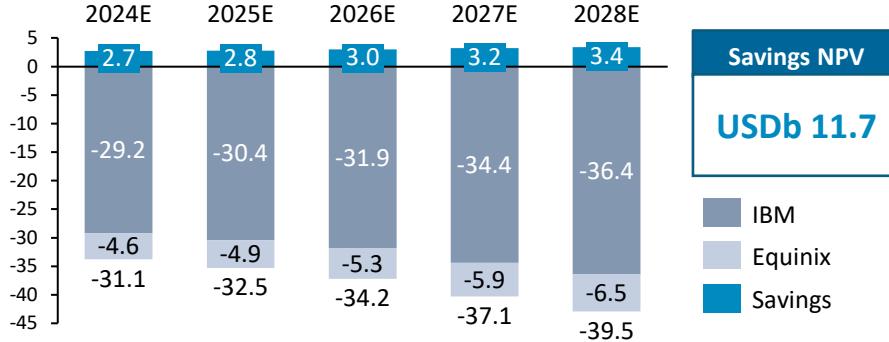
USD^b 5.3

Sources: Team Analysis

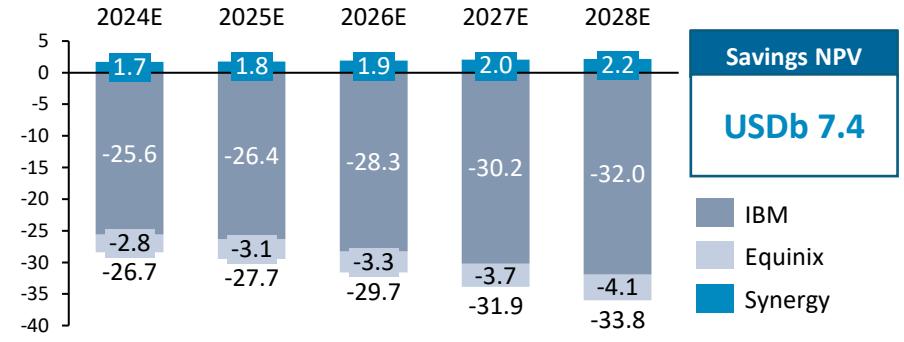
Quantified (Dys-)Synergies – COGS, OPEX and Post Merger Integration Cost

We estimate that the total cost savings would add **USD^b 19.1** in NPV terms, while the Post-M&A integration costs would reduce the value of synergies by **USD^b 9.7**

COGS Reduction Synergies (USD^b)



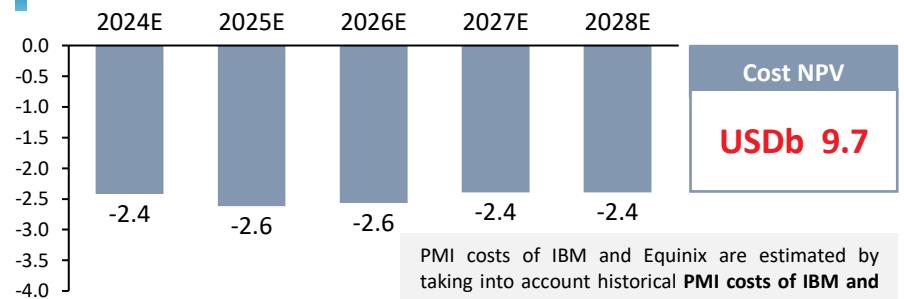
OPEX Reduction Synergies (USD^b)



- Through the acquisition, IBM can integrate Equinix's expertise in platforms and tools for data connection, which may help streamline processes and reduce duplication of efforts.
- Equinix's extensive data center infrastructure can also be leveraged by IBM to reduce its own infrastructure costs. This could involve consolidating data centers, utilizing Equinix's existing facilities, or optimizing resource allocation, resulting in lower COGS for the entity.
- By combining shared services, IBM and Equinix integration can lead to improved operational efficiency and OPEX savings relating to software licenses, maintenance, and development. We predict that the cost synergy resulting from OPEX reduction will account for approximately **6% of the total annual OPEX** for both companies.

Sources: Team Analysis

Post-M&A Integration Costs (USD^b)



Target Valuation

Financial Exchange

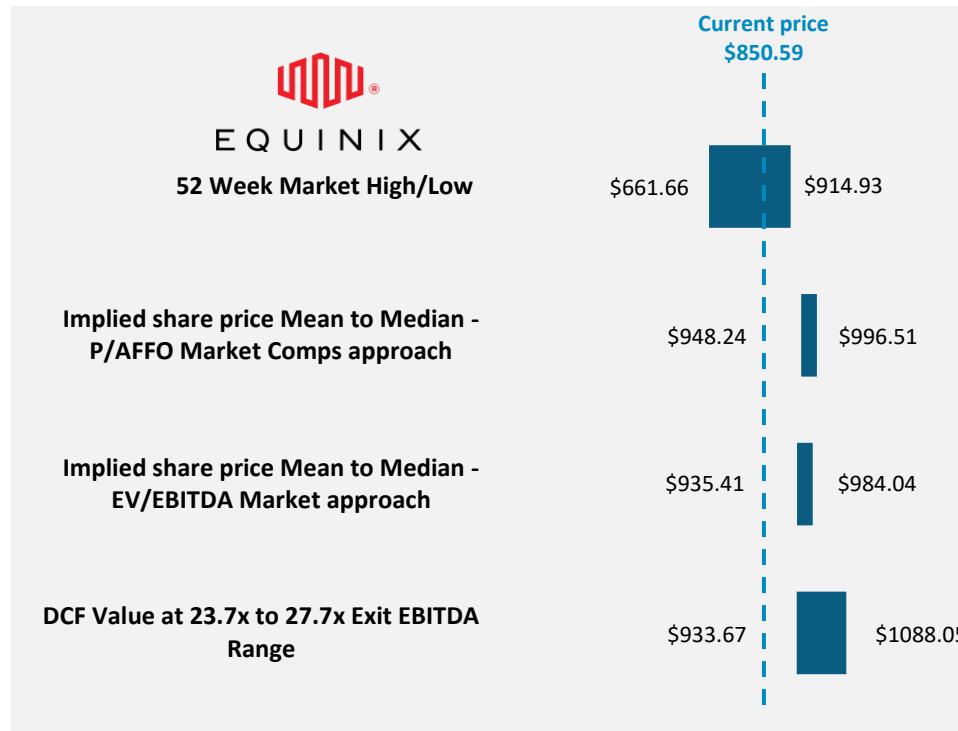
Symbol	Name	Price	Change	Percent Change
REVG	Revere Copper & Brass Inc.	\$17.2000	+0.82	+ 1.58%
RPM	RPM International Inc.	\$64.6000	+0.67	+ 1.03%
SFS	Saint Gobain North America Inc.	\$7.1500	-0.10	- 1.42%
TUP	Teradata Corp.	\$33.7350	+0.27	+ 0.82%
USX	U.S. Steel Enterprises Inc.	\$14.0022	-0.00	+ 0.02%
WTR	Waste Management Inc.	\$38.0700	+0.36	+ 0.95%
BAC	Bank Of America	\$19.89	-0.40	- 2.00%
EIGHT	8x8, Inc.	\$19.41	-0.65	- 3.37%
QAD	QAD Inc.	\$19.6400	-0.19	- 1.00%
DVN	Devon Energy	\$40.6600	+0.06	+ 0.15%
CTL	CenturyLink Inc.	\$23.4799	-0.00	+ 0.00%
CRM	Salesforce Com Inc	\$144.5000	-0.52	- 0.36%
APTV	Aptiv PLC	\$94.0500	1.29	+ 1.39%
WTR	Waste Management Inc.	\$30.8400	+0.10	+ 0.33%
NLSN	Nielsen Holdings plc	\$22.3500	-0.15	- 0.67%
MTW	The Maitowoc Company, Inc.	\$146.9500	+0.89	+ 0.61%
NEM	Newmont Mining	\$146.93	-1.1	- 0.71%
LVS	Las Vegas Sands Corp	\$146.26	-1.26	- 0.85%
HLX	Helix Energy Solutions	\$146.16	-0.91	- 0.61%
IBX	Intl Business Machines	\$146.09	-0.91	- 0.61%

Valuation Summary



Summary standalone implied share price for EQIX, and Weighted average Equity Value of Target company by valuation methodologies

Football Field chart



Sources: Team Analysis

Fair Equity Value of Equinix

Weighted average Equity Value by Valuation Methods (USDm)		
Method	Equity Value	%Weight
DCF Method	95,658	60%
Market Approach EV/EBITDA	93,120	20%
Market Approach P/AFFO	94,299	20%
Equity Value	94,879	100%

As of Feb 20th, Equinix's share is being traded at \$850.59, which indicated that the market share price is currently being **undervalued by 15.14%**.

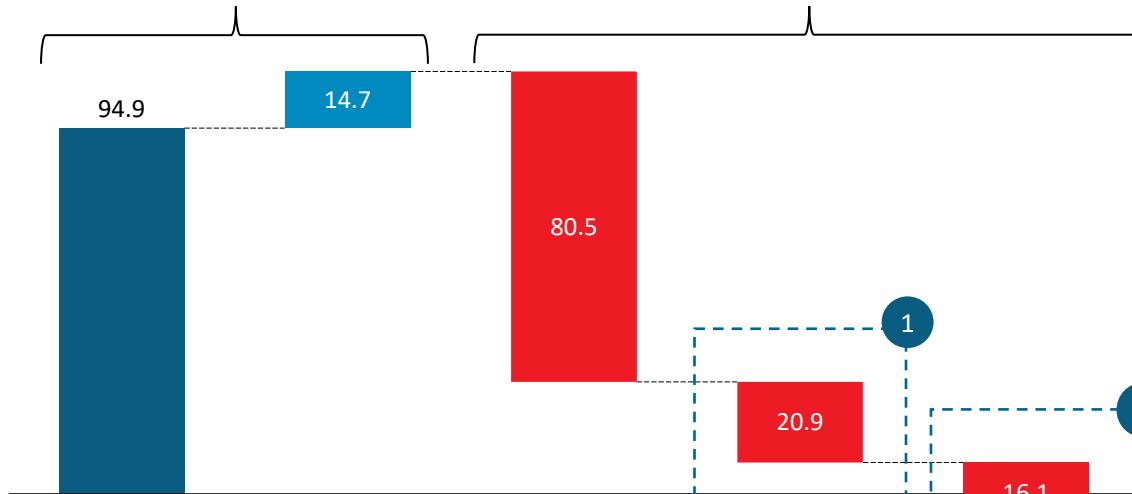
(*)Note: Comparables have been given a less weightage (40%) because Equinix's position in the industry is unique and it does not have a perfect substitute even though after adding premium to the trading multiples.

EV – Purchasing Price Comparison

Acquiring a 100% stake in Equinix would result in wealth destruction of about **USDbn 8.2**, which includes the market capitalization plus the premium required to convince Equinix's shareholders to sell their full stake.

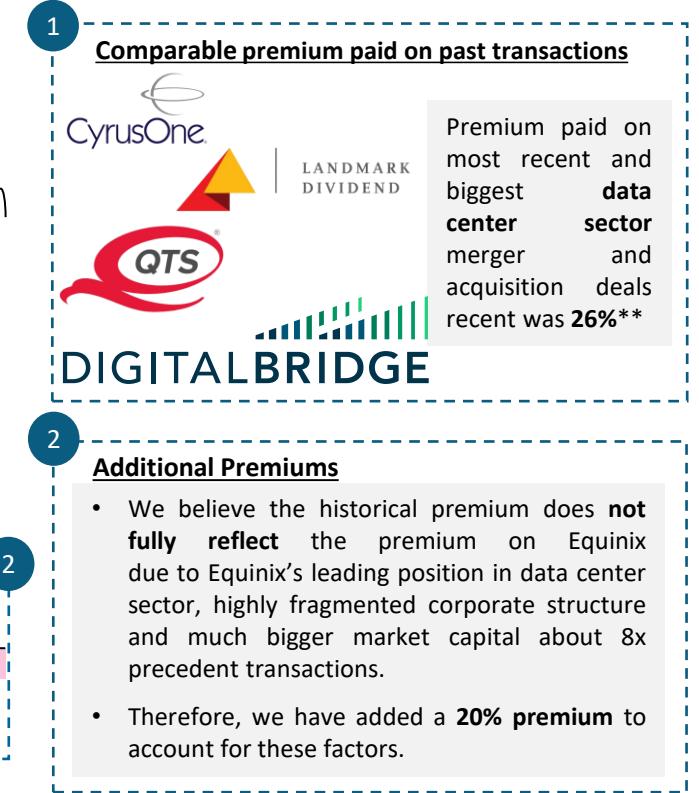
The purchase price is higher than the estimated value it would bring about

Estimated value of acquiring Equinix ↙ Estimated purchasing price for Equinix
USDb 109.6 **USDb 117.8**



Note: (*) Market cap as of February 20th 2024; (**) Premiums calculated based on four week stock price

Sources: Team Analysis



Target Valuation

1

Market
Approach

2

Discounted Cash
Flow

Stock Exchange



Equinix Potential Peer Groups

We have identified three potential peer groups relating to Equinix business model of Colocation and Interconnection services provider

Data Center REITs

Logic: Equinix generates around 70% revenue from leasing space and power under recurring-basis contract, and is qualified as REIT under US regulation. Thus, US based REIT colocation group is vital for assessment



Data Center Non-REITs

Logic: These players are purely colocation or have colocation business, and mainly operate outside the US without REIT title. As their business model and market overlap with Equinix's, assessing them may provide more comprehensive insights



EQUINIX

Interconnection & Network

Logic: Interconnection and networking contribute about 20% Equinix revenue is sharpening its competitive advantage, these players offers services and product related to colocation interconnection & network



Sources: S&P Capital IQ, Company Website, Team analysis

Equinix Peer Group Selection for Trading Multiple Valuation



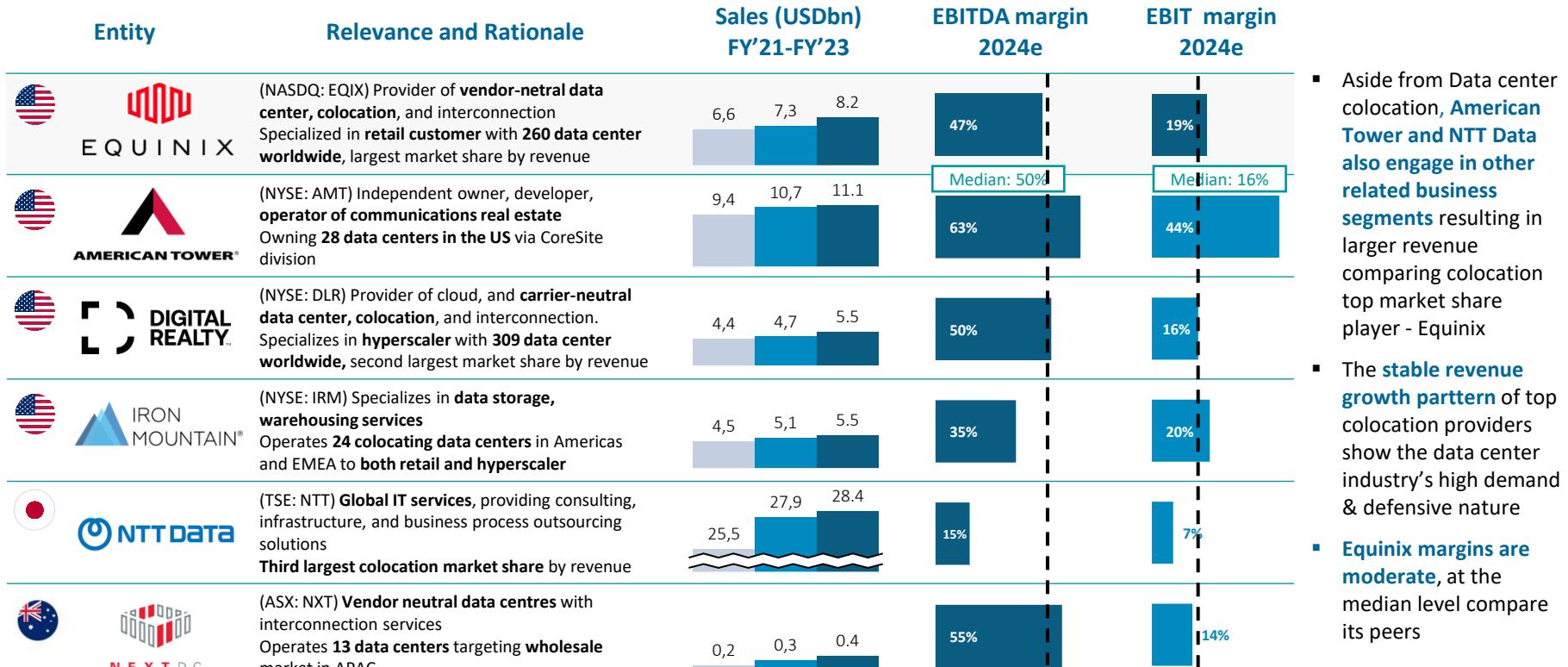
We keep **Data Center REITs** and **Data Center Non-REITs** group, **eliminating Interconnection & Network** due to its unmatched revenue and cost structure and poor brand relevance compared to Colocation and Interconnection business model

Peers Group	Market size	Market growth CAGR	Brand relevance	Revenue breakdown	Cost breakdown % revenue	Result	Retained
EQUINIX	NM	NM	NM	 1. Lease space & power 2. Interconnect, network 3. Others digital services	 1. COGS 2. R&D 3. SG&A 4. D&A	NM	NM
Data Center REITs	\$195bn ('23)	11.8% ('23-'30)		 1. Lease space & power 2. Interconnect, network 3. Others digital services	 1. COGS 2. R&D 3. SG&A 4. D&A	<ul style="list-style-type: none"> Revenue & cost structure strongly similar to Equinix Highest brand relevance 	
Data Center Non-REITs	\$195bn ('23)	11.8% ('23-'30)		 1. Lease space & power 2. Interconnect, network 3. Others digital services	 1. COGS 2. R&D 3. SG&A 4. D&A	<ul style="list-style-type: none"> Revenue & cost structure significantly similar to Equinix but offering more diverse digital services Good brand relevance 	
Interconnect & Network	\$8.2bn ('23)	13.5% ('23-'30)		 1. Lease space & power 2. Interconnect, network	 1. COGS 2. R&D 3. SG&A 4. D&A	<ul style="list-style-type: none"> Unmatched revenue structure to Equinix Have little revenue from leasing space & power Poor brand relevance 	

Sources: S&P Capital IQ as at 02-Mar-23, Company website, Grand Review Research, Team analysis

Equinix Peers Selection and Analysis

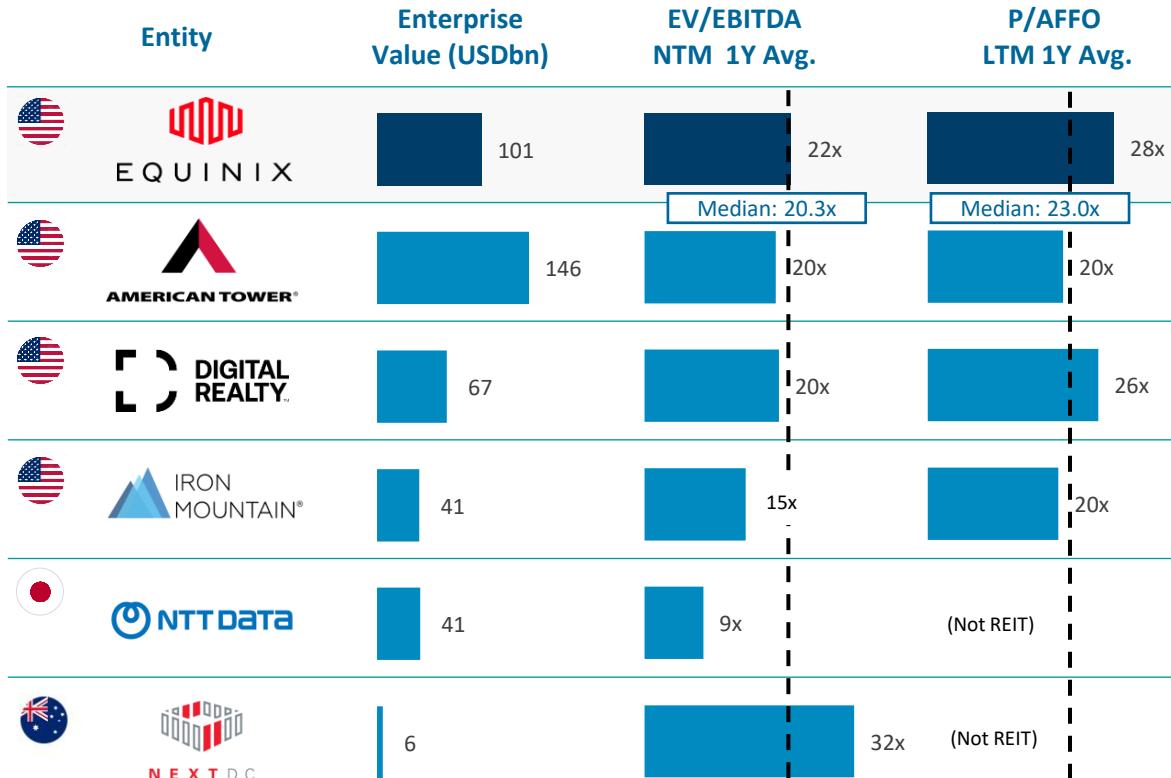
Under the two potential peer groups, we come up with a peer list of five which are most relevant to Equinix's business model, market, and recent financial performance



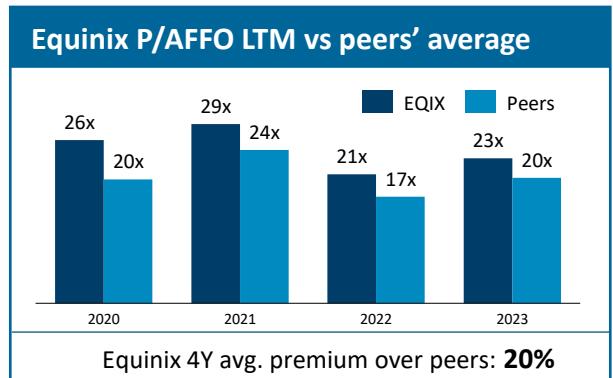
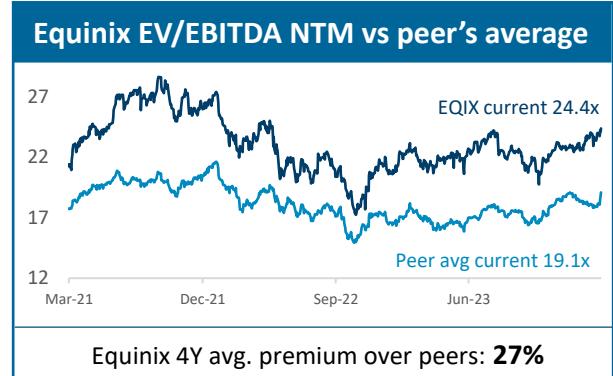
Sources: S&P Capital IQ as at 02-Mar-23, Company website

Peers Trading Multiples

Equinix is currently traded as 24.4x EV/EBITDA and 23.3x P/AFFO which is well above its peers average. This is consistent with its past trading multiple's performance as Equinix has been consistently traded at significant premium



Sources: S&P Capital IQ, Bloomberg, Yahoo Finance, as at 01-Mar-24, Company Press Release



Equity valuation | Comparable approach

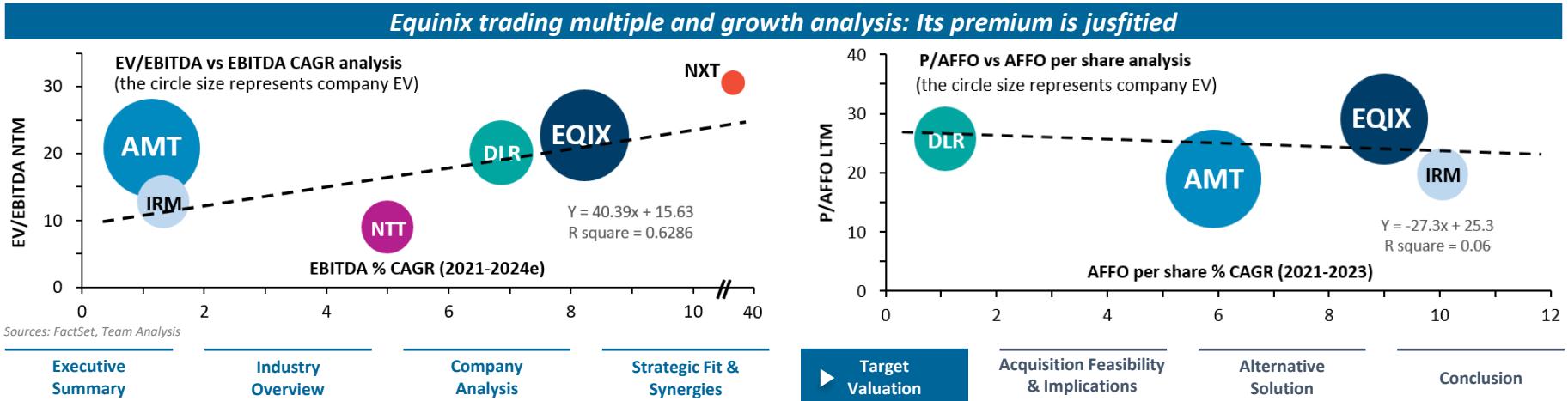
Both EV/EBITDA - EBITDA growth and P/AFFO - AFFP per share metric justify Equinix's premium over peers

Implied share price - EV/EBITDA approach	
Equinix EBITDA forward (USDm)	4,141
Peers median EV/EBITDA NTM 1Y Avg*	20.3x
Equinix premium over peers	25%
Target EV/EBITDA multiple	25.7x
Enterprise value (USDm)	106,608
<i>Net debt</i>	15,359
Equity value (USDm)	93,120
<i>Shares outstanding (million)</i>	94.6
Implied share price (USD)	984.0

* Note: We use 1Y average multiple to eliminate the current market volatility effects, we use median to eliminate outlier effect in the peers list

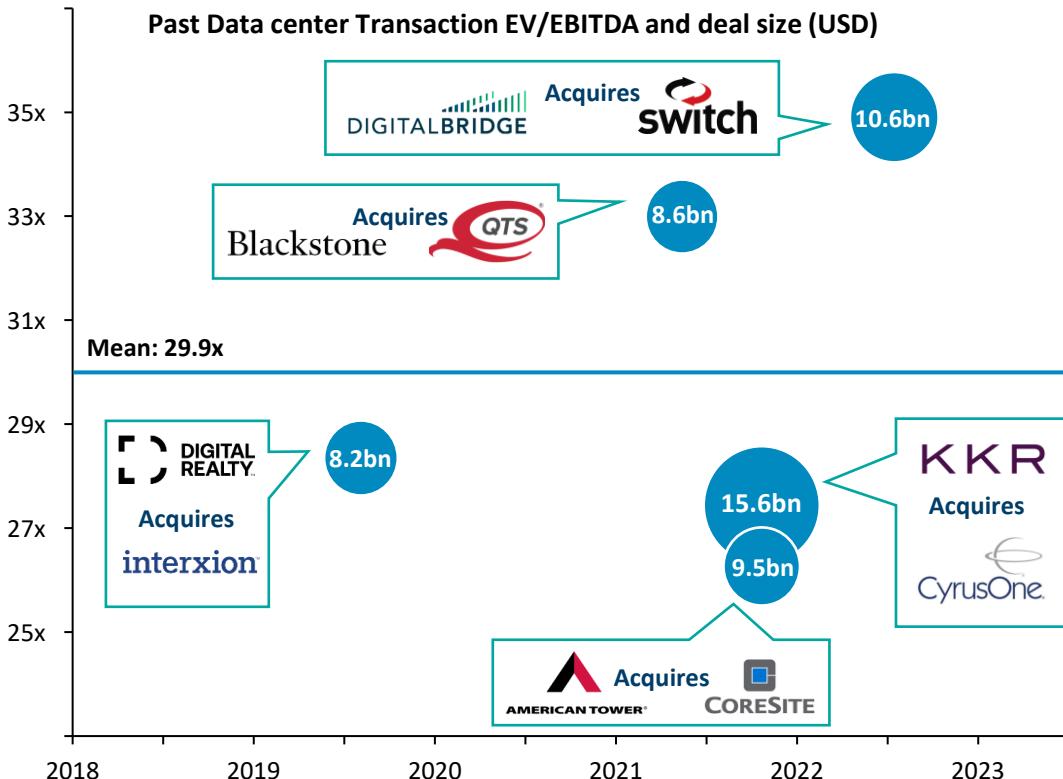
Implied share price - P/AFFO approach	
Equinix AFFO forward (USDm)	3,378
<i>Shares outstanding (million)</i>	95
AFFO per share	35.1
Peers median P/AFFO LTM 1Y Avg*	23.0x
Equinix premium over peers	20%
P/AFFO multiple	27.9x
Implied share price (USD)	996.5

- Equinix's trading multiple **premium** is assigned at **25% and 20%** for EV/EBITDA and P/AFFO respectively based on its 4 year average premium
- **Equinix premium over peers is justified** by its leader position in the data center colocation market and robust growth momentum over both of its REIT and non REIT peers
- EBITDA metric suggests EQIX multiple is **high and fair** with 62% R square, while P/AFFO metric tells EQIX multiple is **high and slightly overvalued** yet R Square is insignificant



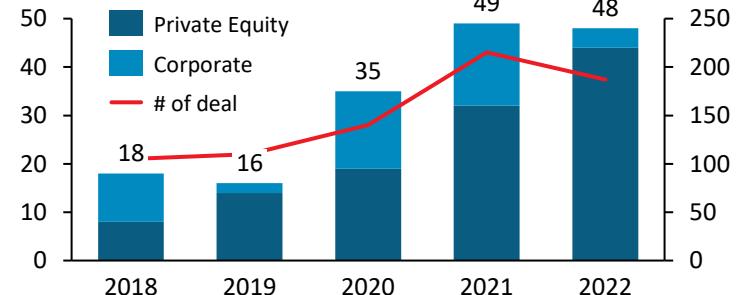
Precedent Data Center Transaction Analysis

Data center M&A market was in a dynamic upward trend before 2023, with significant contribution from investment firms while transaction multiple was in the rise



Sources: FactSet, Team Analysis

Data center total M&A deal value (USDbn) and amount



Takeaways: Rising multiple and PE's participation

- Before 2023, data center M&A market was dynamic with surging number of deal and total value, reflecting the rising demand for cloud computing & data center services
- Private equity plays a pivotal role in the data center development market, viewing data center investments as 'safe havens.' The largest deals carried out so far have involved three investment firms: KKR, Digital Bridge, and Blackstone.
- Transacted EV/EBITDAs were significantly higher than current trading multiples of peers, with Switch deal EV/EBITDA reach 35x

Target Valuation

①

Market
Approach

②

Discounted Cash
Flow

al Exchange

IBM
Int'l Business Machines
225,099 VOLUME
↑ 146.9500
0.89 ↑ 0.61%
146.37 OPEN

146.93
147.16
HIGH

146.26
LOW

HLX
Helix Energy Solutions
IBM
Int'l Business Machines

LVS
Las Vegas Sands Corp

MTW
The Maitowoc Company, I.

NEM
Newmont Mining

NLSN
Nielsen Holdings plc

↓ 144.5000
-0.52 ↓ -0.36%

↑ 23.4799
-0.00 ↓ -0.00%

↓ 40.6600
0.06 ↑ 0.15%

↓ 22.3500
-0.15 ↓ -0.61%

↓ 68.5500
0.89 ↑ 0.89%

APTV
Aptiv PLC

BAC
Bank Of America

DVN
Devon Energy

EIGHT
8x8, Inc.

OL
Ollie's

PNM
PNM Resources Inc.

RPM
Roper Technologies Inc.

SF5
Sprint & Fiber Systems Inc.

TUP
Tupperware Brands Corp.

CRM
Salesforce Com Inc

CTL
CenturyLink Inc.

WTR
Wynn Resorts Ltd.

APL
A.P. Møller-Mærsk A/S

USX
U.S. Apache Enterprises, Inc.

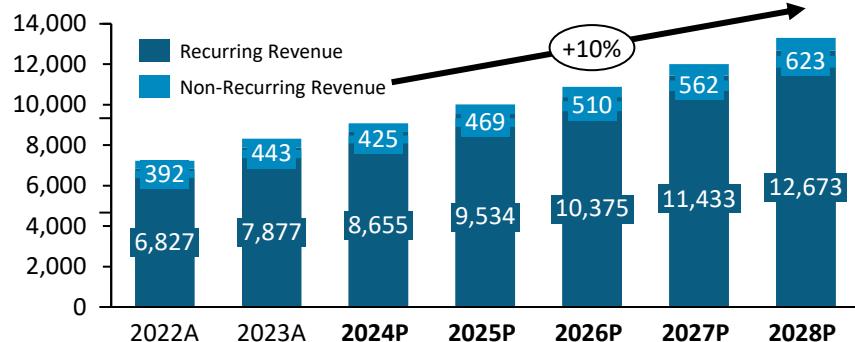
APV
Apex Systems Inc.

Equinix Revenue Build

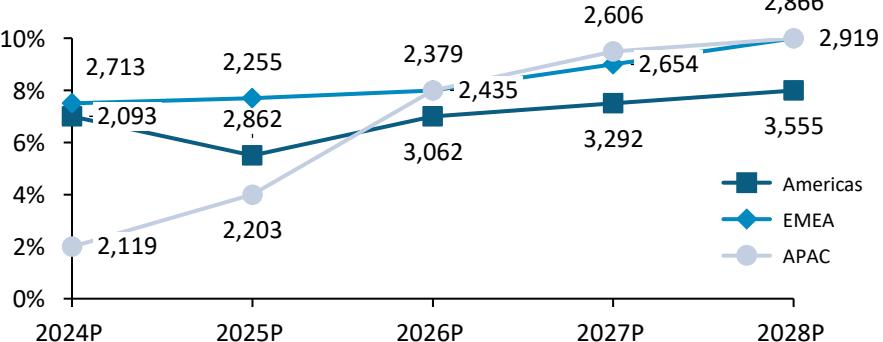


Equinix's top-line revenue growth by 2028 and beyond is driven by strong pricing power and untapped utilization capacity.

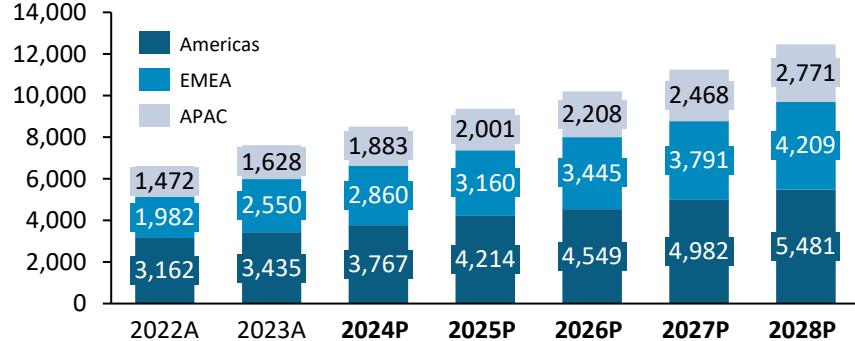
Combined Revenue Growth between '24 and '28 (USDm)



MRR/Cabinet Forecast by Geography between '24 and '28 (USDm)



Recurring Revenue Forecast by Geography (USDm)



Sources: Team Analysis

Key takeaways

- Equinix's effort to expand its portfolio via a past long-running M&A streak into new markets, ground-up development as well as strong bookings (new-lease rent) enhanced its **interconnection network** hence **fueling leasing demand** in its core colocation facilities and **strengthening its pricing power**. As a short-term result, EQUINIX suggested they may look to raise prices on U.S. cross-connects.
- Equinix is currently operating under capacity which indicates that it has ability to boost utilization to **lift organic revenue** at a time when external expansion is increasingly difficult due to peak financing cost and competitive landscape.

Equinix Discounted Cash Flow (1)



Equinix's Valuation using projected Free Cash Flow (FCF)

Free Cash Flow Buildup										
Fiscal year	2019A	2020A	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Fiscal year end date	12/31/19	12/31/20	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28
EBITDA	2,691	2,791	3,132	3,344	3,694	4,023	4,239	4,397	4,822	5,242
EBIT	1,170	1,053	1,108	1,201	1,443	1,575	1,735	1,888	2,081	2,307
tax rate	26.8%	28.3%	17.9%	15.0%	13.8%	14.0%	14.0%	14.0%	14.0%	14.0%
EBIAT (NOPAT)	857	755	909	1,020	1,244	1,355	1,492	1,624	1,790	1,984
Depreciation and amortization						1,997	2,007	1,968	2,146	2,275
Stock based compensation						451	497	540	596	660
Accounts receivable						-86	-111	-106	-133	-156
Operating lease right-of-use assets						-4	-48	-24	-35	-36
Accounts payable and accrued expenses						135	134	128	162	189
Accrued property, plant and equipment						18	25	25	27	29
Other current assets (inc. non-trade receivables)						-48	-18	-25	-30	-25
Other assets						-150	-272	-212	-211	-232
Other current liabilities						-18	23	19	8	17
Other non current liabilities						-51	-6	-20	-26	-17
Unlevered CFO	3,599	3,725	3,918	4,292	4,688					
Less: Capital expenditures						-2,996	-3,001	-2,939	-3,239	-3,457
Less: Purchases of intangible assets						-209	-207	-205	-203	-201
Unlevered FCF	394	517	774	850	1,030					
% growth						31.3%	49.6%	9.9%	21.1%	
Discount factor		End of period								
Assume cash flows are generated at:		100.0%								
Midperiod adjustment factor						1	1	1	1	1
Present value of Unlevered FCF	367	443	611	618	689					

Sources: Team Analysis

Equinix Discounted Cash Flow (2)



Equinix's Valuation using projected Adjusted Funds From Operation (AFFO)

Adjusted Funds From Operation Buildup							
Fiscal year	2022A 12/31/22	2023A 12/31/23	2024P 12/31/24	2025P 12/31/25	2026P 12/31/26	2027P 12/31/27	2028P 12/31/28
EBITDA	3,344	3,694	4,023	4,286	4,644	5,094	5,540
Net income	705	969	1,130	1,458	1,612	1,806	2,036
Net (income) loss attributable to non-controlling interests	-0	0	0	0	0	0	0
Net income attributable to common shareholders	704	969	1,130	1,458	1,612	1,806	2,036
Adjustment:							
Real estate depreciation	1,105	1,142	1,182	1,085	1,181	1,301	1,385
(Gain) loss on disposition of real estate property	7	2	1	3	2	2	3
Adjustments for FFO from unconsolidated joint ventures	10	17	11	13	14	12	13
FFO attributable to common shareholders	1,826	2,130	2,325	2,559	2,809	3,122	3,437
Adjustment:							
Installation revenue adjustment	17.75	3.91	8.5	10.1	7.5	8.7	8.8
Straight-line rent expense	16.26	12.16	13.5	14.0	13.2	13.6	13.6
Contract cost adjustment	-52.89	-46.6	-48.7	-49.4	-48.2	-48.8	-48.8
Amortization of deferred financing costs and debt discounts an	17.83	18.72	18.4	18.3	18.5	18.4	18.4
Stock-based compensation expense	404	408	444.9	477.9	519.9	572.9	634.9
Stock-based charitable contributions	49.01	2.54	25.8	14.2	20.0	17.1	18.5
Non-real estate depreciation expense	426.67	494.21	506.7	465.1	506.2	557.8	593.5
Amortization expense	204.76	209.06	209.0	206.6	204.9	202.6	201.2
Accretion expense	3.17	-1.47	0.9	-0.3	0.3	-0.0	0.1
Recurring capital expenditures	-188.89	-218.29	-217.9	-200.1	-217.7	-239.9	-255.3
Loss on debt extinguishment	-0.33	0.04	0.0	0.0	0.0	0.0	0.0
Transaction costs	22	12	19.0	17.8	16.4	17.7	17.3
Impairment charges	0	0	0.0	0.0	0.0	0.0	0.0
Income tax expense (benefit) adjustment	-31.17	-12.13	-21.7	-16.9	-19.3	-18.1	-18.7
Adjustments for AFFO from unconsolidated joint ventures	-2.26	4.92	1.3	3.1	2.2	2.7	2.5
AFFO	2,712	3,017	3,284.3	3,519.5	3,832.8	4,226.6	4,622.8
% growth	10.9%	11.3%	8.9%	7.2%	8.9%	10.3%	9.4%
Discount factor			86%	186%	286%	386%	486%
Assume cash flows are generated at:							
Midperiod adjustment factor			0.86	1.00	1.00	1.00	1.00
Present value of AFFO	3,050	3,000	2,999	3,035	3,047		

Sources: Team Analysis

Equinix is essentially a REIT, which is subject to different tax payment, dividends policy, business model, etc. Therefore, instead of **FCF**, **AFFO** is a more reliable measure to gauge the cash flow available to distribute to shareholders because:

- **AFFO** specifically adjusts for **real estate-related non-cash expenses**, such as depreciation and amortization, which are significant due to the nature of REIT investments.
- Equinix as a REIT operates under a regulatory requirement to distribute at least 90% of their taxable income to shareholders in the form of dividends. Therefore, CAPEX for expansion must be financed by external sources such as consistently issuing new shares. **AFFO only** deducts **recurring maintenance or capital expenditures** necessary to maintain the portfolio of properties in their current condition, rather than **expansion or development costs** like FCF. Therefore, the cash flow distributed to investors can be reflected more accurately by AFFO.

Equinix Discounted Cash Flow (3)



Calculation of weighted average cost of capital (WACC)

Cost of Capital Assumptions	
Pre-tax cost of debt	2.4%
Tax rate	14.0%
Risk-free rate	4.1%
Beta	1.30
Market risk premium	4.6%

Cost of Capital		Amount	% of total
Capital weights			
Market value of equity		80,491.3	85.6%
Market value of net debt		13,488.0	14.4%
Cost of Capital (WACC)			
8.9%			

Cost of Debt	
Pre-tax cost of debt	2.4%
Tax rate	14.0%
After-tax cost of Debt	2.1%

Sensitivity Analysis						
	US Risk-free Rate					
	8.9%	3.2%	3.5%	3.8%	4.1%	4.4%
Beta	1.1	7.4%	7.6%	7.9%	8.2%	8.4%
	1.2	7.8%	8.0%	8.3%	8.6%	8.8%
	1.3	8.2%	8.4%	8.7%	8.9%	9.2%
	1.4	8.6%	8.8%	9.1%	9.3%	9.6%
	1.5	9.0%	9.2%	9.5%	9.7%	10.0%

Cost of Equity	
Risk-free rate	4.12%
Beta	1.30
Market risk premium	4.6%
Cost of Equity	10.1%

Equinix's WACC was hit by **peak US Treasury bill rate** and **higher required rate of return on equity** because investors expect higher returns from companies they perceive as more valuable or having higher growth prospects than other peers.

Sources: Team Analysis, FactSet, (Resource Center | U.S. Department of the Treasury, 2024)

Equinix DCF Sensitivity Analysis

Discounted Cash Flow using Exit multiple method and Sensitivity Analysis.

Equinix's Enterprise Value Calculation (USDm)

Net Debt	
Cash & equivalents ST & LT market. securities	2,096
Debt & equivalents	15,584
Net debt	13,488

Exit EBITDA multiple approach (AFFO)

Terminal year EBITDA	5,540
Terminal value EBITDA multiple	25.743x
Terminal value	142,621
Present value of terminal value	94,015
Present value of stage 1 cash flows	15,131
Enterprise value	109,146
<i>Implied TV perpetual growth rate</i>	6.436%

NTM EV/EBITDA derived from Equinix's peers is used to arrive **Terminal Value** in discounting cash flow model instead of **Perpetual growth rate** because assuming infinite growth at a constant rate, which might not be realistic for an industry subject to **rapid technological changes, regulatory uncertainties, and competitive dynamics.**

Sources: Team Analysis, FactSet

Equinix's Equity Value and Sensitivity Analysis (USDm)

Fair value per share		EBITDA
Enterprise value		109,146
Less: Net debt		-13,488
Less: Trapped cash		0
Equity value	95,658	
Diluted shares	94.630	
Equity value per share	\$1,010.86	
<i>Market premium / (discount) to fair value</i>		(15.9%)

Sensitivity Analysis

		Exit EBITDA Multiple					
		23.7x	24.7x	25.7x	26.7x	27.7x	
WACC	\$1,010.86	7.9%	\$980.00	\$1,020.37	\$1,060.73	\$1,101.09	\$1,141.46
		8.4%	\$956.53	\$996.00	\$1,035.46	\$1,074.93	\$1,114.40
		8.9%	\$933.67	\$972.27	\$1,010.86	\$1,049.45	\$1,088.05
		9.4%	\$911.41	\$949.15	\$986.90	\$1,024.64	\$1,062.38
		9.9%	\$889.72	\$926.64	\$963.55	\$1,000.47	\$1,037.38

Target Valuation

Acquisition Feasibility & Implications

Alternative Solution

Conclusion

Acquisition Feasibility

①

Financial
Perspective

②

Non-Financial
Perspective

Optimal Financing Options Identification via Accretion/Dilution Sensitivity Analysis



After running a sensitivity analysis, the financing structure with 90% stock and 10% cash (100% cash-on-hand and 0% new debt raised) is the most optimal option, which creates for IBM the least dilutive pro forma EPS.

Accretion Dilution - Year 1

% Stock	% Cash consideration financed with debt										
(\$1.42)	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
100%	(1.68)	(1.68)	(1.68)	(1.68)	(1.68)	(1.68)	(1.68)	(1.68)	(1.68)	(1.68)	(1.68)
90%	(1.72)	(1.69)	(1.65)	(1.62)	(1.59)	(1.56)	(1.52)	(1.49)	(1.46)	(1.43)	(1.40)
80%	(1.76)	(1.70)	(1.63)	(1.56)	(1.49)	(1.42)	(1.36)	(1.29)	(1.22)	(1.15)	(1.09)
70%	(1.81)	(1.70)	(1.60)	(1.49)	(1.39)	(1.28)	(1.17)	(1.07)	(0.96)	(0.85)	(0.75)
60%	(1.86)	(1.71)	(1.57)	(1.42)	(1.27)	(1.12)	(0.97)	(0.82)	(0.68)	(0.53)	(0.38)
50%	(1.92)	(1.73)	(1.53)	(1.34)	(1.14)	(0.95)	(0.75)	(0.56)	(0.36)	(0.17)	0.03
40%	(1.98)	(1.74)	(1.49)	(1.25)	(1.00)	(0.75)	(0.51)	(0.26)	(0.01)	0.23	0.48
30%	(2.05)	(1.75)	(1.45)	(1.14)	(0.84)	(0.54)	(0.23)	0.07	0.37	0.68	0.98
20%	(2.13)	(1.77)	(1.40)	(1.03)	(0.66)	(0.30)	0.07	0.44	0.80	1.17	1.54
10%	(2.22)	(1.78)	(1.34)	(0.90)	(0.47)	(0.03)	0.41	0.85	1.29	1.73	2.17
0%	(2.32)	(1.80)	(1.28)	(0.76)	(0.24)	0.28	0.80	1.32	1.84	2.37	2.89

Transaction assumptions (USDm)

IBM Financial Profile

Current Stock Price \$188.2

Diluted Share Outstandings (MM) 922.1

Equity Value (MM) 173,539.22

Equinix Financial Profile

Current Stock Price \$850.59

% offer premium 46%

Offer Price Per Share \$1,244.50

Diluted Share Outstandings (MM) 94

Offer Value (MM) 116,994.1

Deal Structure

% Stock 90%

% Cash 10%

- % Cash financed with debt 0%

- % Cash financed with excess cash 100%

Sources & Uses of Funds (USDm)

Sources of Funds

New borrowing to acquire target 0.0

New borrowing to refinance target debt 13,488.0

Cash used to acquire target 11,699.4

Value of stock issued to acquire target 105,294.7

Cash for fees 652.4

Total sources 131,134.5

Uses of Funds

Stock to target 105,294.7

Cash to target 11,699.4

Target debt refinanced 13,488.0

Deal fees (advisory, legal, and accounting) 585.0

Financing fees (related to acq debt) 67.4

Total Uses 131,134.5

%Cash balance needed - Year 1

% Stock	% Cash consideration financed with debt										
87%	100%	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
100%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
90%	0%	9%	17%	26%	35%	43%	52%	61%	70%	78%	87%
80%	0%	17%	35%	52%	70%	87%	104%	122%	139%	156%	174%
70%	0%	26%	52%	78%	104%	130%	156%	183%	209%	235%	261%
60%	0%	35%	70%	104%	139%	174%	209%	243%	278%	313%	348%
50%	0%	43%	87%	130%	174%	217%	261%	304%	348%	391%	435%
40%	0%	52%	104%	156%	209%	261%	313%	365%	417%	469%	521%
30%	0%	61%	122%	183%	243%	304%	365%	426%	487%	548%	608%
20%	0%	70%	139%	209%	278%	348%	417%	487%	556%	626%	695%
10%	0%	78%	156%	235%	313%	391%	469%	548%	626%	704%	782%
0%	0%	87%	174%	261%	348%	435%	521%	608%	695%	782%	869%

Sources: Team Analysis

Executive Summary

Industry Overview

Company Analysis

Strategic Fit & Synergies

Target Valuation

Acquisition Feasibility ► & Implications

Alternative Solution

Conclusion

IBM + Equinix | Merger Model



Acquiring 100% stake of Equinix will cause IBM's pro-forma EPS deeply dilutive in all ways.

Pro Forma Balance Sheet (USDm)				
	IBM	Equinix	Adjustment	Pro Forma
Total Assets	135,238.0	32,650.7	\$92,220.92	\$260,109.6
Total Liabilities	112,547.0	20,162.3	0	132,709.3
Total Equity	22,691.0	12,488.4	92,221	127,400.3
Accretion / Dilution Analysis				
Fiscal year			FY 2024	FY 2025
Acquirer				FY 2026
Net income			9,285.5	9,829.6
Cash EPS			10.07	10.66
Diluted shares outstanding (weighted avg.)			922.1	922.1
Target				
Net income			1,094.9	1,241.1
Cash EPS			11.36	12.61
Diluted shares outstanding (weighted avg.)			96.4	98.4
Transaction related expenses/income ⁽¹⁾				
Less: Interest expense from new deal debt			228.9	228.9
Less: Interest income on cash forgone			(123.5)	(123.5)
Plus: Synergies, net			2,769.2	2,971.2
Less: Incremental D&A expense			0.0	0.0
Less: Financing fee amortization			0.0	0.0
Taxes (assumed at acquirer's rate)			(402.4)	(430.7)
Total after tax transaction related income/ (expenses)			2,472.1	2,645.9
Pro Forma Cash Net Income				
Pro Forma Shares Outstanding			12,852.6	13,716.6
			1,481.6	1,481.6
Pro forma Cash EPS				
Acquirer standalone EPS			\$8.67	\$9.26
			\$10.07	\$10.66
Accretion / Dilution per share			(\$1.40)	(\$1.40)
Accretion / Dilution %			(13.9%)	(13.2%)
Pro forma EPS is dilutive by 13.9%				

Credit statistics		
Total debt	IBM	EQUIX
+ Noncontrolling interests	68,158.0	17,455.1
+ Preferred stock	80.0	(0.4)
- Cash & equivalents	0.0	0.0
Net debt	(13,462.0)	(2,095.7)
	54,776.0	15,359.0
		78,519.7
EBITDA for the calendar year ending 2024	15,720	3,694
Gross Debt / EBITDA	4.3x	4.7x
Debt / Equity	14.5x	35.8x
Net Interest Expense Ratio	-1.06%	9.59%
Enterprise value / EBITDA	14.5x	35.8x
		18.4x

- Despite choosing the most optimal financing structure, Pro-forma EPS will **still be dilutive 13.9%** due to the fact that a huge amount of new share issued.
- However, in terms of **peak cost of debt economy environment** and the event that IBM has just been **downgraded to Moody's A3** due to previous acquisition deals will make new debt raised further dilute the EPS.
- Moreover, current deteriorated financial health of IBM which is already very close to the **covenant thresholds** (aggregate amount of secured indebtedness and sale and leaseback transactions to 10 percent of IBM's consolidated net tangible assets, consolidated net interest expense ratio can not fall below 2.2 or 1) will strengthen the structured recommend by the Sensitivity Analysis because IBM have no choice without raising 90% of stock to finance for Equinix acquisition deal.

⁽¹⁾ One-time charges are excluded from both cash and GAAP EPS calculations in this model

Sources: Team Analysis

Acquisition Feasibility

①

Financial
Perspective

②

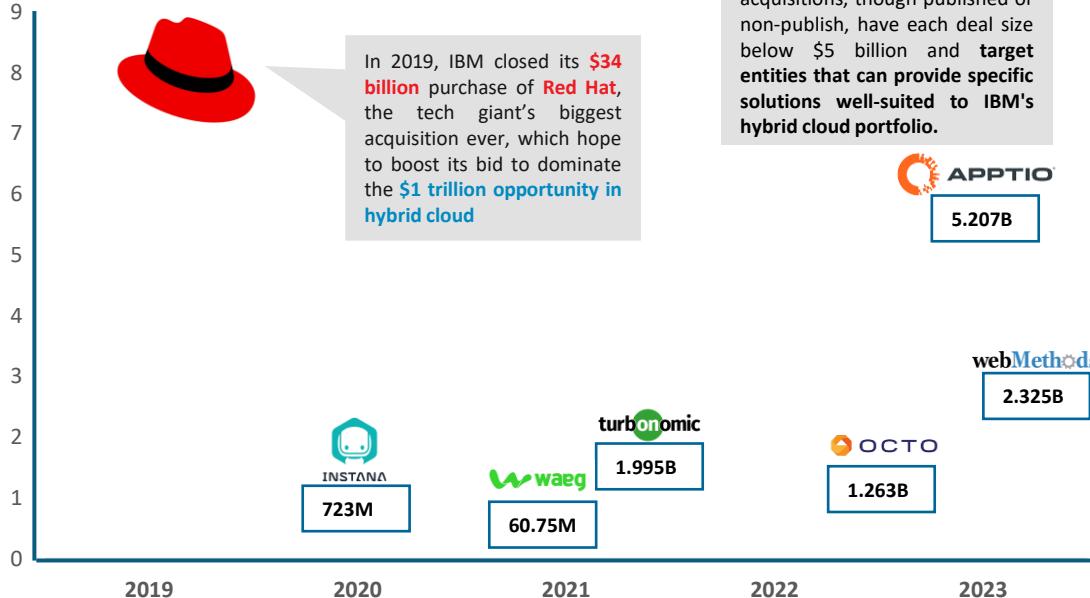
Non-Financial
Perspective

IBM and Equinix Strategies Don't Align

IBM's strategic move recently highlight their momentum to create an integrated portfolio that brings end-to-end solutions in Hybrid Cloud environment

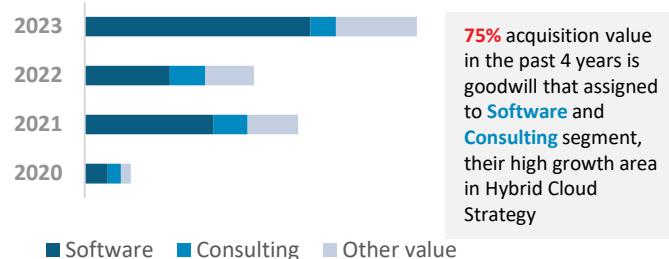
IBM's acquisition highly focus on their hybrid cloud approach

Major acquisitions 2020-2023



...that mostly assigned goodwill to core businesses:
Software and Consulting

Goodwill value of acquisitions by segment (USDbn)



...and IBM has also divested from non-cloud-related areas to streamline its business model

- Over the past 3 years, IBM has spun off certain business unit, assets and operations that are deemed non-core or no longer align with the company's long-term goals.
- The \$20B Kyndryl spin-off in 2020 make Kyndryl now operating as a standalone company, offering infrastructure services such as data center management, network services, and technical support. IBM therefore will be able to focus more on higher-growth areas such as cloud computing and AI

Considering IBM's current strategy, Equinix appears to be an unsuitable target

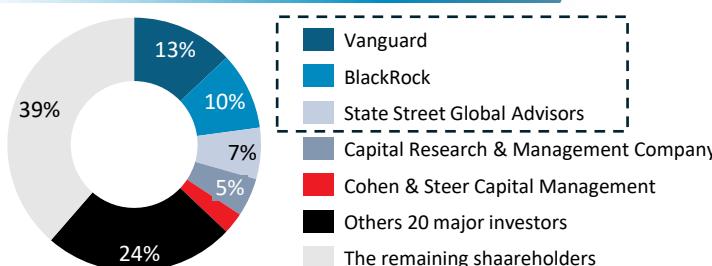
(Form 10-K (IBM,2023)), (Capital IQ, 2024)

Acquisition Risk

Cross ownership & dispersed ownership structure could be a significant obstacle given Equinix's anti takeover provision & REIT disqualification post-merger

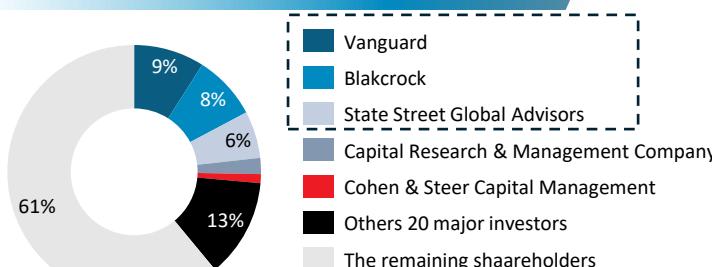
Cross-ownership & institutional dispersed ownership...

Equinix's shareholder structure



*Note: Investor who filed 13D/G or 13F forms with the Securities Exchange Commission (SEC)

IBM shareholder structure



*Note: Investor who filed 13D/G or 13F forms with the Securities Exchange Commission (SEC)

10/20 major shareholders of IBM with 30% stake,...

....are also holding 40% of Equinix

..could be a significant obstacle given Equinix's anti-takeover provision & REIT disqualification post merger

Though IBM and Equinix have a significant cross-ownership, no shareholder have dominant voting right to others, and Equinix shareholder structure is even institutional disperse with 97% institutional investors. This could potential hinder the 51% Equinix acquisition given:

- Since 2009, Equinix has subjected to Delaware General Corporate Law (DGCL), with Section 203 restricts a Equinix's ability from to merger, consolidation, or salesl 10% or more Equinix assets with a large shareholder who owns 15% or more of Equinix stock for three years after acquisition. This will significantly hinders IBM and Equinix synergies
- Acquiring 51% EQIX would disqualify its REIT status according to the 5 and 50 Rules according to US Internal Revenue Service, which would eliminate its tax benefit, potentially results in tax penalty, and disrupt annual dividend policy, while Equinix has stated that it desires to maintain REIT qualification
- Equinix also complies to its Restated Certificate of Incorporation with various Anti-Takeover effects which may discourage transaction involving change in control and management.

IBM will faces significant barriers regarding Delaware takeover provision, anti-takeover effects, REIT status, which be very challenging in negotiation as there are various parties involved with varying investment requirement, preferences. This potentially lead to delay, cancellation or hinder synergies.

Implication for The Industry



Acquiring Equinix leaves IBM space and ability to hinder its rivals which potentially raises Anti-trust concern and triggers investigation

Industry implication	Industry status	Area of concern	Threat assessment	Anti-trust concern			
Market concentration	<ul style="list-style-type: none"> The cloud market is highly concentrated, top 3 providers (AWS, Azure, GG Cloud) hold ~ 80% share Both US and global colocation & interconnection market are fragmented with various players, no single players hold more than 15% share 	<ul style="list-style-type: none"> The acquisition would significantly increase the concentration in either cloud computing, or colocation & interconnection market 	<ul style="list-style-type: none"> IBM and Equinix neither have significant horizontal overlap nor synergies, thus do not significantly increase company market share or industry concentration by acquisition only 				
Market competition	<ul style="list-style-type: none"> Despite concentration, cloud computing market is competitive due to large growth potential Colocation market is competitive with ~2,200 player globally with homogeneous offers 	<ul style="list-style-type: none"> The acquisition would significantly: Eliminate market competition, potential new entrants, or... Reduce the choice for customer, raise anticompetitive coordination risk 	<ul style="list-style-type: none"> The acquisition could somewhat increase competition: As vertical M&A, IBM could enhance its product portfolio & becomes relatively more competitive, and increase customer choice Given already high barriers of entry in these industry, the acquisition's impact is insignificant 				
Foreclose effect	<ul style="list-style-type: none"> Both IBM and its rivals are Equinix's partner or customer via Equinix hyperscale colocation, interconnection, edge solution Nearly half of colocation market capacity is leased to hyperscalers, including IBM 	<ul style="list-style-type: none"> IBM take control or create market structure that hinder IBM's competitors access to Equinix essential services as their input, or.. ..prioritize IBM service on EQIX data center, affecting data neutrality 	<ul style="list-style-type: none"> Low incentive: IBM rivals like AWS, Google Cloud, Azure,.. are also partners who facilitate IBM's vision in hybrid & multi cloud, and these rivals have various alternative aside EQIX data center. High ability: IBM have high ability to hinder its rivals access to EQIX's services if acquires EQIX 				
Innovation	<ul style="list-style-type: none"> The cloud computing market is currently a hotbed with constant new innovation & advancement Relatively decent degree of innovation, primarily in energy efficiency, security, & remote management 	<ul style="list-style-type: none"> The acquisition would limit each company's investment in R&D, affecting the industry,... Or reduce the industry degree of innovation 	<ul style="list-style-type: none"> The acquisition is not likely decrease the industry's degree of innovation but may significantly limits IBM resources for R&D post-merger, affecting the industry as IBM is leader in certain market 				
Sources: S&P Capital IQ as at 02-Mar-23, Company website, Grand Review Research, Team analysis							

Data Protection Implication

In the context of M&A in technology industry, data protection is a crucial consideration and there are several precedents and legal issues that can raise concerns

Phase	Data Privacy Positioning	Concern	Rationale	IBM's Incentive	IBM's Ability	Risk Level	Preventive method
Post acquisition	Equinix as processor of customer personal data	IBM accesses customers' private data through Equinix in an intrusive manner, leading to a data breach. Especially as Equinix caters to IBM's competitors such as Cisco, AWS	Equinix has a limited role, only performing defined automated operations and not having logical access to any data uploaded by customers to Equinix Metal. Equinix complies with GDPR(1) and industry standards, including its usage of DPA(2)				Due Diligence Post Purchase Agreement
Post acquisition	Equinix as a controller of personal data	IBM accesses customers' contact information, names and biometric data through Equinix	Equinix complies with its obligations under applicable data privacy laws in relation to these processing activities, which are covered by Equinix's Privacy Statement and privacy policies				Due Diligence Post Purchase Agreement
Post acquisition	Equinix as a user of third-party services	IBM faces complex data protection situations as involved with Equinix's third-party data processing vendors	Equinix enters appropriate safeguards with sub-processors, such as Standard Contractual Clauses, as required by the applicable privacy laws				Due Diligence Ongoing Monitoring
During acquisition	IBM as an owner of combined entity's data	Data leakage happens in the integration process	IBM upholds high standards of data protection. There would need to be a heightened level of scrutiny to ensure these integration points do not become vectors for data breaches				Integration planning

Sources: Equinix's website, IBM's website, gdpr-info.eu, (1): General Data Protection Regulation, (2): Data Processing Agreement

IBM should NOT acquire

Synergies do NOT justify the associated cost of the transaction

- Our multiples and DCF valuation indicate **Equinix's equity is currently 10.18% overvalued**
- It is likely that Equinix's shareholders will require a **total premium of 46%** on top of current market cap to sell its share
- The purchasing price does **not justify USDb 14.7 in estimated synergies** (after adjusting for Post M&A integration costs)

Several challenges fundamentally question the feasibility of such a transaction

- Since financing the deal with cash is not a viable option, new equity or debt must be raised. However, it will lead to either **massive dilution**, or an **unsustainability high leverage ratio**.
- The **cross ownership** between two companies is also a major obstacle that hinders a majority-stake buyout.
- The context of technology industry may also raise a crucial **consideration in terms of data protection**
- The **differences in strategy** as well as **limitations in technology integration** may hinder the complete realization of synergies

Alternative Solution

Putting things into perspective

Evaluating Opportunities | Solve IBM's Core Problems



Why does after 15 years conquering the cloud market, IBM still holds modest market share? Everything begins from Competitive advantage

Strengthening IBM's Competitive Advantage that needs smart acquisition

Expand products' presence and accessibility with other top ecosystems

Leverage leading partners' ecosystems of potential customer base, enhance solution package options for joint customers

Time to take effect Feasibility Performance Impact



Nurture customized expertise serving specific industries that are IBM's strengths

Top favorable served sectors of IBM such as: telecommunication, BFSI, Manufacturing, Healthcare, and governments

Time to take effect Feasibility Performance Impact



Add up new cutting-edge technologies / products

GenAI, Quantum Computing, Edge Computing, Blockchain, new operating system inventions.

Time to take effect Feasibility Performance Impact



Upgrade core technology capabilities of existing offerings

Logic: Equinix generates around 70% revenue from leasing space and power under recurring-basis contract, and is qualified as REIT under US regulation. Thus, US based REIT colocation group is vital for assessment

Time to take effect Feasibility Performance Impact



Establish strong presence at potential geographical markets

Geographies with attractive growth potential, where IBM has some trust relationship with government and built up some portfolios there (India, Australia, APAC,...).

Time to take effect Feasibility Performance Impact



Source: IBM, Team's Analysis

Target Selection Analysis (1/2)

Six potential listed peers in three segments are analyzed on how they can increase IBM's competitive advantage. HCL Technology and Megaport so the most potential in commercial sense

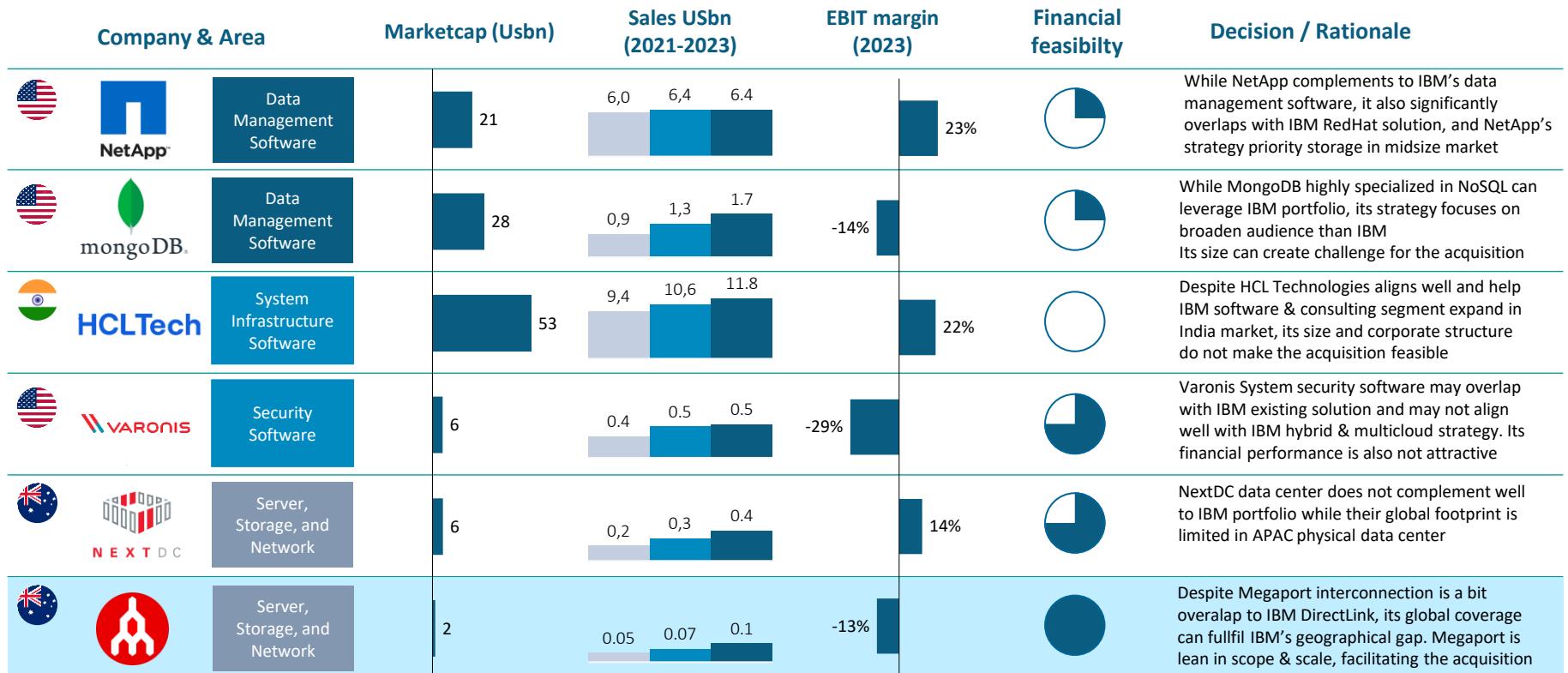
Company & Area	Relevance & rationale	Business segment complementary	Global footprint	Tech-advance / Specialization	Non-financial feasibility
 NetApp® Data Management Software	A data management software company, focusing on data storage optimization, management, and security within data centers and cloud environments.				
 mongoDB® Data Management Software	A NoSQL database company specialized in handling unstructured data, offering high-performance storage and retrieval capabilities.				
 HCLTech System Infrastructure Software	IT company providing software solutions and services specializing in digital transformation, enterprise software, and IT infrastructure management globally				
 VARONIS Security Software	Specializing in data security & analytics solutions to help organizations protect sensitive data, detect insider threats, and ensure regulatory compliance.				
 NEXTDC Server, Storage, and Network	Data center providers in APAC offering colocation, interconnection, and cloud services for enterprise with reliability, scalability, and security data storage				
 Megaport Server, Storage, and Network	Offering fast, flexible, and secure interconnection to cloud providers, data centers, & enterprises worldwide, which facilitates hybrid multi cloud infrastructure				

Sources: S&P Capital IQ as at 02-Mar-23, Company website

Executive Summary	Industry Overview	Company Analysis	Strategic Fit & Synergies	Target Valuation	Acquisition Feasibility & Implications	Alternative Solution	Conclusion
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Target Selection Analysis (2/2)

Among 6 potential targets, Megaport shows the best fit, thanks to its extensive interconnection services and its lean & specialized business model in both scale and scope



Sources: S&P Capital IQ as at 02-Mar-23, Company website

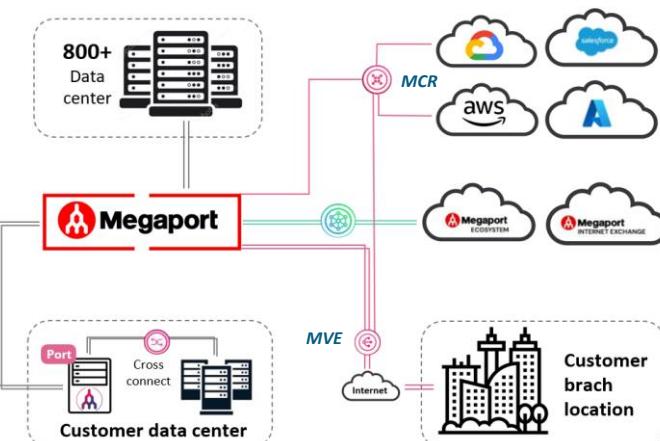
Megaport Overview | (ASX: MP1)



A purely interconnection players with rich ecosystem heading to expand global footprint

Company overview

- Founded in 2013, Megaport focuses on Network as a Service (NaaS) which enables its customers to interconnect to partners, cloud & network service providers flexibly, on-demand, and cost effectively via desktop and open API
- Megaport has been cultivating an extensive global footprint to offers its customers a neutral platform spanning across 812 data centers with rich ecosystem of various cloud service providers.
- The company is under dynamic expansion phase and is investing in its ecosystem and technology to reinforce its competitive advantage



Sources: S&P Capital IQ as at 02-Mar-23, Company website

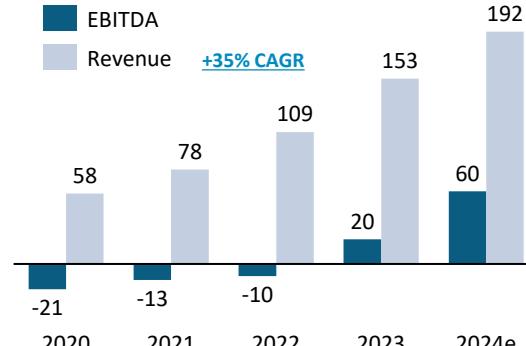
Megaport Virtual Edge (MVE) enables customers to connect branch locations like office buildings, corporate campuses, and storefronts to the Megaport ecosystem of service providers.

Megaport Cloud Router (MCR) enables customers to instantly provision and control virtual routers through Megaport's web-based portal for cloud-to-cloud networking

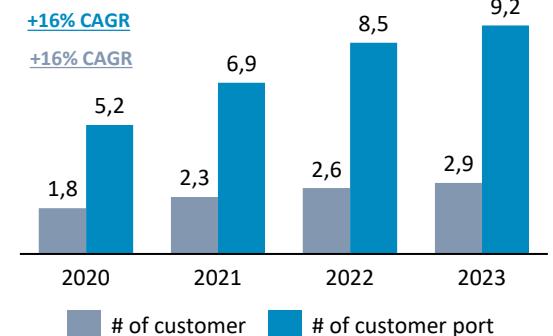


Revenue is growing fast while EBITDA is showing good signs

Megaport's revenue (Usmn)



Megaport's customer base (thousand)



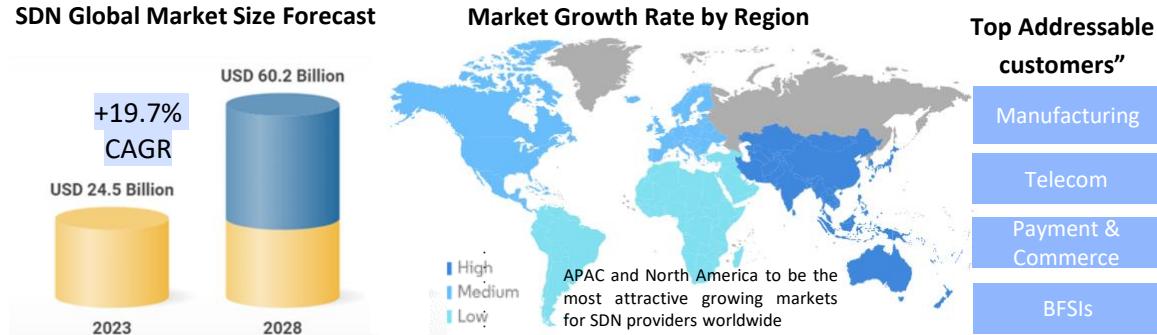
Attractiveness of Megaport as a Target (1)

Harnessing SDN market potentials and Australia opportunities

Megaport as a target

- Starting point as a startup:** ten years ago in Australia, specialized in provisioning connections between datacenters and external services.
- Market position:** Megaport nowadays become industry pioneer in Network as a Service (NaaS) and is today the leading independent provider of NaaS services worldwide, help connecting customers' data centers to all the 398+ major cloud providers around the world.
- Capacity and Global ecosystem reach:** Megaport have since built out an unrivaled global platform in 800+ data centers, across more than 150 cities, spanning 25 countries, with 284 cloud on-ramps, servicing 2,856 diverse customers, with ARR growing ~ 25-30% consecutive years.
- Achieve Profit Break-even point:** Expressively bounce back after losses during pandemic, The Company generated \$178.6mn in 2023 ARR (+39% YoY) and reach break-even positive EBITDA margin. Consensus all strong believes in the company's future rapid growth and expansion.
- Top-notch R&D and engineering team:** 230+ members globally, expert in data center infrastructure and connectivity engineering
- Deal size estimate:** current Market cap ~ \$1.5bn, yielding affordable acquisition opportunity for IBM, under expensive interest rate environment, to interconnect customers across data centers worldwide without purchasing capital intensive infrastructure asset.

Synergy 1: The potential of Software Defined Networking (SDN) Market

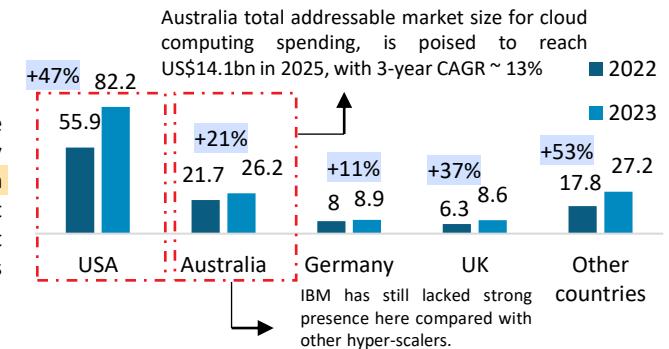


Synergy 2: Strengthen US competitive position and Injecting Hybrid Cloud to Australia markets

95% of Australian enterprise cloud decision-makers using public cloud say their organization uses multiple public cloud vendors, ". demonstrating that multi cloud is the predominant strategy"

Hyper-scalers (Microsoft & AWS) are finally paying attention to Australia by committing huge investment to establish data centers here → Align with most recent change in National government policy – considering data centers infrastructure renovation as primary focus.

Megaport's Revenue By Major Countries (USDbn)



Source: Global Data, Megaport's Annual Report 2023, Mordor Intelligence, Team's Analysis

Attractiveness of Megaport as a Target (2)

Product integration fit and opportunities to connect customers from worldwide data center network

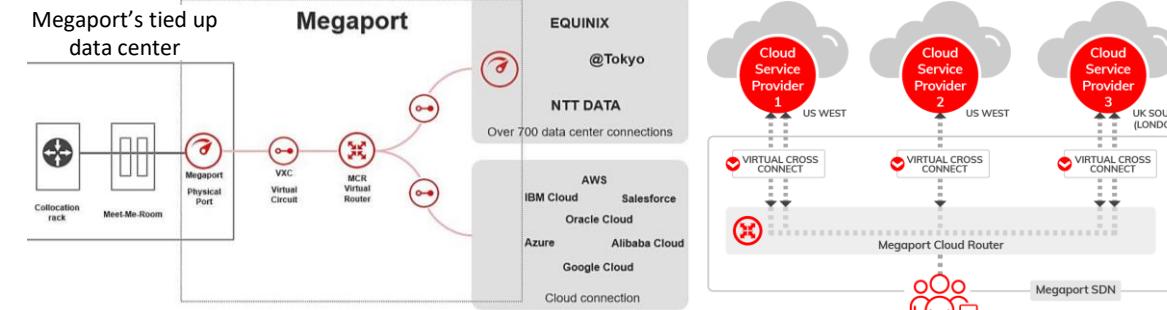
Megaport as a target

- Starting point as a startup:** ten years ago in Australia, specialized in provisioning connections between datacenters and external services.
- #1 Market position:** Megaport nowadays become industry pioneer in Network as a Service (NaaS) and is today the leading independent provider of NaaS services worldwide, help connecting customers' data centers to all the 398+ major cloud providers around the world.
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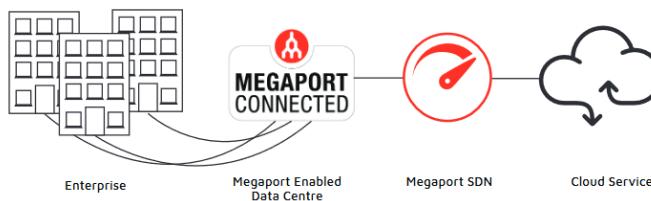
Source: Megaport

Synergy 3: Product integration fit

 Make hybrid multi cloud services perform better by building customers' network architecture on a foundation of dedicated connectivity.



Synergy 4: Opportunities to connect customers from worldwide data center network



To reach
~ 2,856 diverse customers worldwide via data center partners



IBM Direct Link accessibility
Allow customers access to IBM Cloud Direct Link via Megaport Platform



To fulfill cloud services
Even across locations that IBM does not have point of presence here

Target Valuation | DCF (1/4)



Target's 5-year FCF Forecast

Free Cash Flow Buildup							
Fiscal year	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Fiscal year end date	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28
EBITDA	3,344	3,694	4,023	4,286	4,644	5,094	5,540
EBIT	1,201	1,443	1,680	2,051	2,231	2,459	2,726
tax rate	15.0%	13.8%	14.0%	14.0%	14.0%	14.0%	14.0%
EBIAT (NOPAT)	1,020	1,244	1,445	1,764	1,919	2,115	2,344
Depreciation and amortization			1,898	1,757	1,892	2,062	2,180
Stock based compensation			445	478	520	573	635
Accounts receivable			-86	-111	-106	-133	-156
Operating lease right-of-use assets			-4	-48	-24	-35	-36
Accounts payable and accrued expenses			110	76	121	152	178
Accrued property, plant and equipment			14	20	22	24	25
Other current assets (inc. non-trade receivables)			-48	-18	-25	-30	-25
Other assets			-150	-272	-212	-211	-232
Other current liabilities			-18	23	19	8	17
Other non current liabilities			-51	-6	-20	-26	-17
Unlevered CFO	3,555	3,663	4,106	4,497	4,913		
Less: Capital expenditures			-2,724	-2,501	-2,721	-2,999	-3,191
Less: Purchases of intangible assets			-209	-207	-205	-203	-201
Unlevered FCF	622	956	1,180	1,296	1,521		
% growth			53.7%	23.4%	9.9%	17.3%	
Discount factor			86%	186%	286%	386%	486%
Assume cash flows are generated at:							
Midperiod adjustment factor			1	1	1	1	1
Present value of Unlevered FCF	577	815	923	931	1,003		

Sources: Team Analysis

Megaport's **revenue growth** beyond 2023 is expected to come from expanding product offerings, **enhancing sales strategies**, and **leveraging its early mover advantage in network-as-a-service**.

Initiatives like the completion of Project Centurion and the development of the Global WAN product aim to address market demands and drive future growth. Despite facing challenges such as a slowdown in IT purchases, Megaport is focusing on **cost-cutting** and **service enhancements** to sustain profitability.

Target Valuation | DCF (2/4)



Comparable Analysis to identify Industry derived beta and Exit Multiple

Financial Metrics

Entity	Sales		EBITDA				EBIT			
			FY1		FY2		FY1		FY2	
	FY1	FY2	(Margin)	FY1	(Margin)	FY1	(Margin)	FY2	(Margin)	
Megaport	196	240	53	27%	75	31%	16	8%	40	17%
Macquarie Technology Grp	368	395	110	30%	120	30%	50	14%	57	14%
Data 3	2,853	3,124	61	2%	70	2%	54	2%	63	2%
PC Connection	4,489	4,703	204	5%	216	5%	177	4%	196	4%
Huron Consulting Group	2,257	2,460	293	13%	337	14%	253	11%	296	12%
Fastly A	881	1,020	52	6%	96	9%	(25)	-3%	19	2%
ePlus	3,332	3,487	294	9%	317	9%	274	8%	294	8%
Average				13%			14%		6%	8%
Median				9%			9%		8%	8%

Valuation Multiples

Entity	Market Data				EV/EBITDA (x)		P/E (x)		P/FCF (x)	
	Market		Equity		FY1	FY2	FY1	FY2	FY1	FY2
	Price	Cap	Value	Net Debt						
Megaport	15.11	2,420	2,376	(42)	44.5x	31.7x	173.9x	81.7x	91.7x	54.4x
Macquarie Technology Grp	79.74	1,958	1,873	51	17.0x	15.6x	62.5x	58.6x	34.6x	161.8x
Data 3	8.82	1,366	1,249	(95)	20.4x	18.0x	31.5x	28.8x		
PC Connection	98.62	2,649	2,213	(428)	10.8x	10.2x	18.7x	17.1x	28.6x	24.6x
Huron Consulting Group	149.11	2,931	3,388	530	11.6x	10.0x	17.5x	14.7x		
Fastly A	21.01	3,127	3,182	162	61.4x	33.3x	92.9x	1395.0x		77.5x
ePlus	120.82	3,257	3,119	(137)	10.6x	9.8x	15.7x	14.8x	13.0x	32.6x
Average					25.2x	18.4x	25.2x	18.4x	25.2x	18.4x
Median					17.0x	15.6x	17.0x	15.6x	17.0x	15.6x

Sources: FactSet

Executive Summary	Industry Overview	Company Analysis	Strategic Fit & Synergies	Target Valuation	Acquisition Feasibility & Implications	▶ Alternative Solution	Conclusion
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Target Valuation | DCF (3/4)

WACC Calculation and Sensitivity Analysis

Cost of Capital Assumptions

Pre-tax cost of debt	9.4%
Tax rate	30.0%
Risk-free rate	3.0%
Beta	2.25
Market risk premium	4.6%

Cost of Debt

Pre-tax cost of debt	9.4%
Tax rate	30.0%
After-tax cost of Debt	6.6%

Cost of Equity

Risk-free rate	3.00%
Beta	2.25
Market risk premium	4.6%
Cost of Equity	13.4%

Cost of Capital

Capital weights

	Amount	% of total
Market value of equity	1,554.1	99%
Market value of net debt	15.9	0.7%
Cost of Capital (WACC)		13.28%

Sensitivity Analysis

	Australia Risk-free Rate					
Beta	13.3%	2.1%	2.4%	2.7%	3.0%	3.3%
2.05	11.5%	11.8%	12.1%	12.4%	12.7%	
2.15	12.0%	12.2%	12.6%	12.8%	13.1%	
2.25	12.4%	12.7%	13.0%	13.3%	13.6%	
2.35	12.9%	13.2%	13.5%	13.8%	14.1%	
2.45	13.3%	13.6%	13.9%	14.2%	14.5%	

Sources: FactSet, Team Analysis

Target Valuation | DCF (4/4)

Equity Value Calculation

Exit EBITDA multiple approach

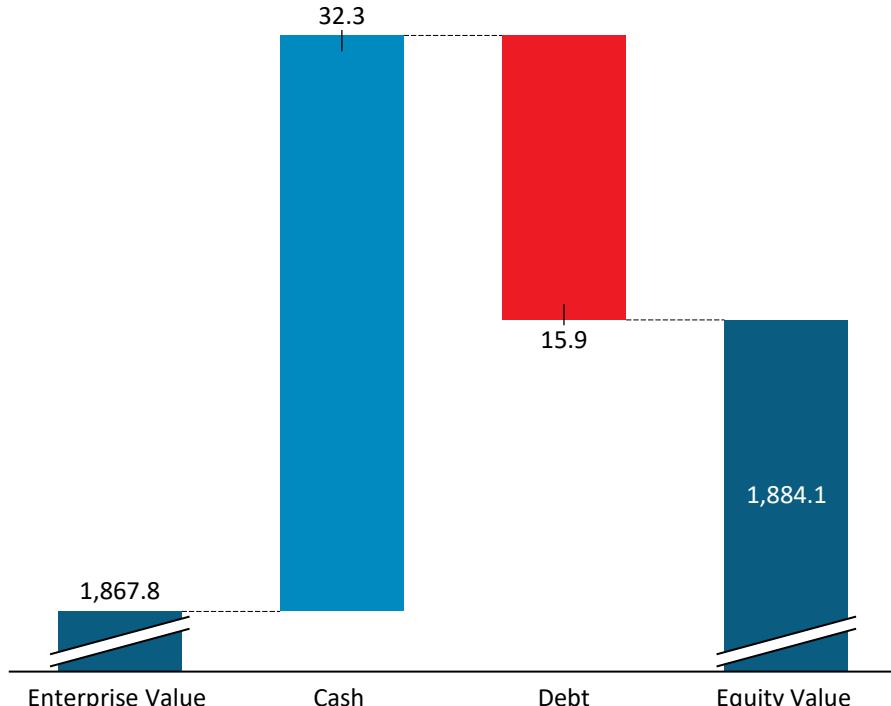
Terminal year EBITDA	169
Terminal value EBITDA multiple	17.0x
Terminal value	2,879
Present value of terminal value	1,790
Present value of stage 1 cash flows	77
Enterprise value	1,868
<i>Implied TV perpetual growth rate</i>	<i>8.536%</i>
Net Debt	
Cash & equivalents ST & LT market. securities	32
Debt & equivalents	16
Net debt	-16
Trapped cash	0.0

Fair value per share

	<u>EBITDA</u>
Enterprise value	1,868
Less: Net debt	16
Less: Trapped cash	0
Equity value	1,884
Diluted shares	158.235
Equity value per share	\$11.91
<i>Market premium / (discount) to fair value</i>	<i>(17.5%)</i>

Sources: Team Analysis

Enterprise Value to Equity Value Bridge (USDm)

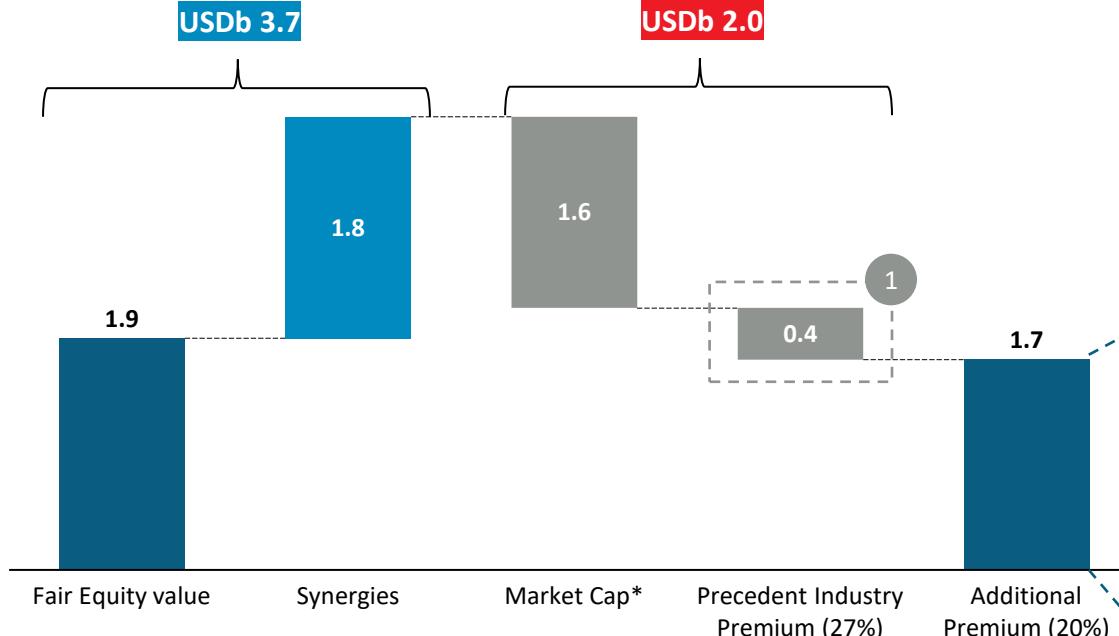


EV – Purchasing Price Comparison

Despite a significant premium paid over intrinsic value, the synergies the acquisition deal offer is much more significant, hence translating to a total benefit for IBM of USDb 1.7

Total premium paid for the deal is worth it for the synergies it brings

Estimated value of acquiring Megaport Estimated purchasing price for Megaport



Note: (*) Market cap as of February 20th 2024; (**) Premiums calculated based on four week stock price

Sources: Team Analysis

1

Comparable premium paid on past transactions



Premium paid on most recent and biggest data center sector merger and acquisition deals recent was 27%**

PV of Total Estimated Benefit from the Deal

By offering synergy effects via many ways: significantly bolstering IBM's cloud offerings through already establishment in cloud connectivity and NaaS sectors; improving the overall security offerings available to IBM's clients while mitigating the integration cost through Megaport's direct integration with IBM, the Deal will translate to an **upside of USDb 1.7** despite a significant premium paid over intrinsic value.

IBM + Megaport | Merger Model



Acquiring Megaport would positively impact IBM's EPS on a pro forma basis

Transaction assumptions (USDm)

IBM Financial Profile

Current Stock Price	\$188.2
Diluted Share Outstanding (MM)	922.1
Equity Value (MM)	173,539.22

Megaport Financial Profile

Current Stock Price	\$9.82
% offer premium	27%
Offer Price Per Share	\$12.47
Diluted Share Outstanding (MM)	158.2
Offer Value (MM)	1,973.7

Deal Structure

% Stock	0%
% Cash	100%
• % Cash financed with debt	0%
• % Cash financed with excess cash	100%

Sources & Uses of Funds (USDm)

Sources of Funds

New borrowing to acquire target	0.0
New borrowing to refinance target debt	15.9
Cash used to acquire target	1,973.7
Value of stock issued to acquire target	0.0
Cash for fees	9.9
Total sources	1,999.6

Uses of Funds

Stock to target	0.0
Cash to target	1,973.7
Target debt refinanced	15.9
Deal fees (advisory, legal, and accounting)	9.9
Financing fees (related to acq debt)	0.1
Total Uses	1,999.6
Do sources equal uses?	Yes

Sources: Factset (2024)

Pro Forma Balance Sheet (USDm)

	IBM	MP1	Pro Forma
Total Assets	135,238	134.6	135,260
Total Liabilities	108,415	22.4	112,579
Total Equity	22,691	112.2	22,681

Accretion / Dilution Analysis

	FY 2024	FY 2025	FY 2026
Acquirer			
Net income	9,285.5	9,829.6	10,318.3
Cash EPS	10.07	10.66	11.19
Diluted shares outstanding (weighted avg.)	922.1	922.1	922.1
Target			
Net income	10.8	22.2	37.6
Cash EPS	0.07	0.14	0.24
Diluted shares outstanding (weighted avg.)	158.2	158.2	158.2

Transaction related expenses/income⁽¹⁾

Less: Interest expense from new deal debt	(0.2)	(0.2)	(0.2)
Less: Interest income on cash forgone	(19.8)	(19.8)	(19.8)
Plus: Synergies, net	350.0	400.0	500.0
Less: Incremental D&A expense	0.0	0.0	0.0
Less: Financing fee amortization	0.0	0.0	0.0
Taxes (assumed at acquirer's rate)	(46.2)	(53.2)	(67.2)
Total after tax transaction related income/ (expenses)	283.8	326.8	412.8

Pro Forma Net Income

Pro Forma Shares Outstanding	922.1	922.1	922.1
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Pro forma Cash EPS

Acquirer standalone EPS	\$10.07	\$10.66	\$11.19
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Accretion / Dilution per share

\$0.32	\$0.38	\$0.49
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Accretion / Dilution %

3.2%	3.6%	4.4%
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Target Valuation



Acquisition Feasibility ► & Implications

Alternative Solution

Conclusion

Post Acquisition Strategy

Globally and locally strengthened

IBM's Current Business In Australia

- IBM built first data center in Australia in 2014, and currently has **4 data center locations** across the country
- In 2017, IBM had announced the availability of its **cloud container service** in its Australian data centers, the service uses **Kubernetes**, an open-source container orchestration system leveraging a **Docker engine**.
- **Huge signed contract value** with local customers, varying from governments and big enterprises. E.g. \$725M Computing Services Deal with Australian Government
- **Acquisition of SXiQ** – a leading professional Hybrid Cloud Consulting Business in Australia, specializing in cloud applications, cloud platforms and cloud cybersecurity.



Integrate with Megaport's Strength in Australia & Globally

- 800+ data centers globally, across more than 150 cities, spanning 25 countries, with 284 cloud on-ramps, servicing 2,856 diverse customers
- Product Range Ecosystem:
- The largest Software Defined Network (SDN) platform
- Megaport Virtual Edge
- Megaport Cloud Router
- Data Center Interconnect
- Megaport Marketplace



Sources: IBM, Megabot

Conclusion

Summary and Final Decision



www.ibm.com/il

IBM should NOT acquire Equinix ...

... instead, Megaport is preferable

Financial Summary



- Our multiples and DCF valuation indicate **Equinix's equity is currently 10.2% overvalued**
- It is likely that Equinix's shareholders will require a **total premium of 46%** on top of current market cap to sell its share
- The purchasing price does **not justify USDb 14.7 in estimated synergies** (after adjusting for Post M&A integration costs)

Feasibility Summary



- Even in the most optimal financing case, the acquisition will result in **significant EPS dilution of about 14%**
- Cross ownership & dispersed ownership structure could be a significant obstacle given **Equinix's anti takeover provision & REIT disqualification post-merger**
- The acquisition leaves IBM space and ability to hinder its rivals which potentially **raises Anti-trust concern and triggers investigation**

Alternative Solution Summary



- **An affordable deal** to help IBM enhance Direct Link service accessibility and interconnect customers across data centers worldwide without purchasing capital intensive infrastructure asset.
- IBM's current **financial capabilities permit** a majority stake acquisition or even full buyout of Megaport without increasing financial constraints
- **IBM only need to pay 27% premium** over the current market price to acquire Megaport.

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