

Digital Bridge Group



Company Overview

DigitalBridge is one of the world's largest digital infrastructure firms investing across five key digital infrastructure sectors: data centers, macro cell towers, fiber networks, small cells, and edge infrastructure. Most of their revenue comes from the U.S. at 92%, with Europe and others trailing behind at 7% and 1%, respectively. DigitalBridge operates under 5 major business models from InfraBridge(Value-Add) with a typical ownership period of 5 years, to a Core strategy segment with up to 30-year leases driving constant dividend yield. DBRG's clients span several industries with Microsoft and PayPal in the U.S. and SAP internationally. Their typical services such as cell towers and data centers earn revenue based on 5–10-year lease contracts with their major customers being Verizon, T-Mobile, AT&T, and Dish. DBRG has several data center companies portioned around the world such as Switch in the U.S., AIMS in Malaysia, Scala in Latin America, and Atlas Edge in Europe. The Data Center market is highly saturated for public cloud in the U.S. but is making headwinds in the private cloud computing space. The global private cloud market size is around \$6B for 2023 and Switch made over \$500M in revenue, making them the single largest provider of private cloud infrastructure. As for their equity's portfolio, DigitalBridge has begun their shift towards IT stocks with it now making up 39.68% of their Q4 2023 portfolio. A key holding is Equinix, a retail data center reit focusing on small to medium size businesses, which is now making up 16.91% of their equity portfolio. Hindenburg Research claimed that Equinix has been lying to investors, which has led the stock to drop 8.7% since the report on May 20th. While this poses a major risk for their portfolio, the stock price has already adjusted and DigitalBridge could pursue a securities arbitration to get compensation. The company recently deconsolidated both Databank and Vintage SDC making over \$471M and deleveraging their balance sheet by \$5B. This was done to simplify their financial reporting and rotate the business model towards being an asset-light investment manager.

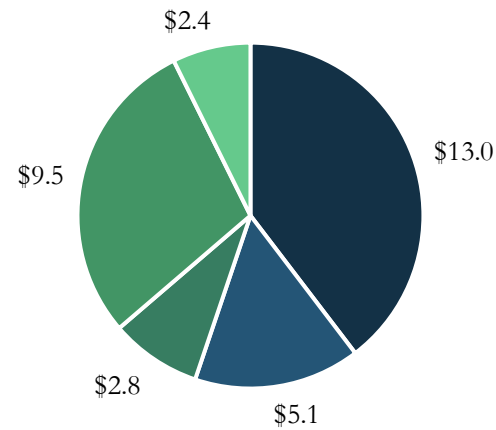
Industry Overview

Telecom (Mrk Cap: \$27.9B, CAGR: 3.3%): There have been a few trends in the in-cell tower industry like zoning difficulties and radius reduction. As opposed to a few years ago, it has become much more difficult to get approval from a district to build a cell tower since they are seen as unaesthetic. Along with the increased zoning difficulty, cell towers are having smaller radius with 5G's range being 1000 ft as opposed to 4G's at 10 miles. Additionally, early cell tower investments by internet providers like AT&T and Verizon was focused on large towers that covered a large range whereas future spending will be focus on "filling in the gaps." Due to these restrictions and trends, there has been a shift to small cell towers, especially in cities.

Data Center (Mrk Cap: \$301.8B, CAGR: 10.5%): The 5 main data center types are Colocation, Hyperscale, Edge, Cloud, Enterprise and Micro. Public cloud is dominated by a few key providers like AWS and Azure, but sub-markets like high redundancy private cloud have room for new competitors to arise. Different use cases require different types of data centers, like AI having a much greater power demand and being smaller than Edge. Companies that can adapt well to specific use cases and appeal to a niche market will be key drivers for growth moving forward. Currently the demand is so strong that the only limiting factor is the production and power distribution to these centers. As these centers become more advanced, they must increase their rack density with the average rack density for Hyperscale set to reach 50kW per rack by 2027, surpassing the current average of 36kW. Several states are undergoing grid restructuring such as what ERCOT is doing in Texas, Dominion Energy in Virginia, and PG&E in California with the focus on decentralizing generation and allowing for the transfer of over 500MWs to a single location.

Assets Under Management

(Fee Earning, USD in Billions)

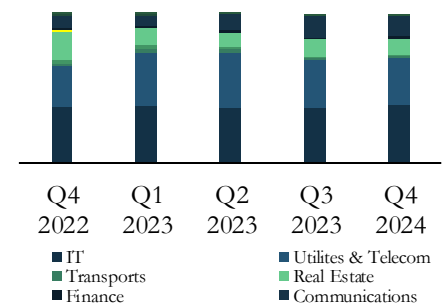


- DBP infrastructure equity
- InfraBridge Global Infrastructure
- Core Equity, Credit and Liquid Strategies
- Co-invest vehicles
- Separately capitalized portfolio companies

Revenue by Segment



Portfolio Industry Breakdown



Key Information

Mrk Cap:	\$3.012B	Ticker:	DBRG
Revenue:	\$821M	Price:	\$18.42
Gross Profit:	\$818M	AUM:	\$80.1M
Net Income:	\$505M	Dividend Yield:	0.21%



Marcio Parente
Analyst-in-Training
(331) 223-5100
marcio@vt.edu





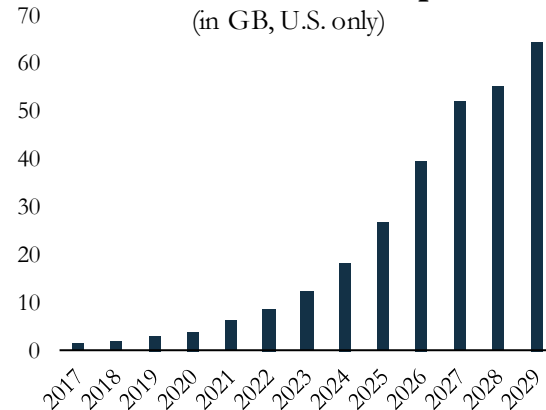
Simplified Business Model and Adaptive Investing

Digital Bridge has recently deconsolidated both Databank and Vantage SDC in efforts to simplify their business model. The CEO, Marc Ganzi, highlighted that this step aligns the company with its long-term strategy to be an alternative asset light investment manager. The focus is now leveraging the demand for digital infrastructure to drive long-term returns for its investment partners. Vantage SDC, which represents a portfolio of 13 hyperscale data centers serving four North American markets, still remains a part of DigitalBridge's investment portfolio but with non-controlling interest. This transition is expected to streamline operations and enhance the company's ability to generate long-term value for its shareholders. The company's focus on their investment portfolio will also allow them to better adapt to trends in the rapidly changing technological landscape.

As an example of them adapting to these trends, Q4 of 2022 saw transportation making up 20% of their stock portfolio. This number has now dropped to 11% due to them shifting investments towards communications and telecom. Investments such as Crown Castle International and SBA Communications, the second and third largest holding in their equity's portfolio respectively, show how DBRG can capitalize on the increasing demand and importance of wireless communication. In my opinion, cell phones will soon outsource all processing to data centers and rely on streaming in order to become faster and more efficient. The market is already expecting an exponential increase in cellular data usage, and this would exacerbate that even further. This is all to say that focusing on low asset investments allows them to recognize and adapt to these trends even faster, increasing their potential profits and dividend yield.

Data Traffic Per Smartphone

(in GB, U.S. only)

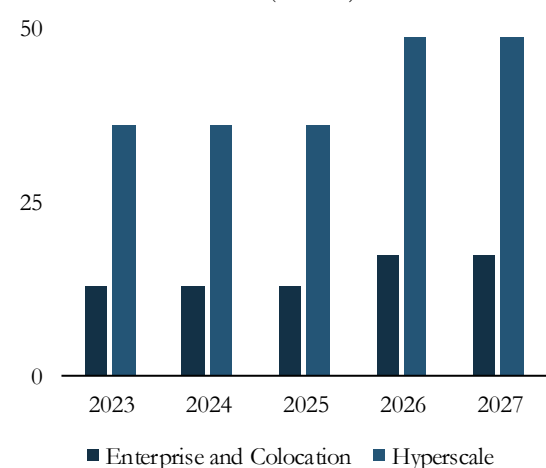


Pricing and Energy Barrier

Overall energy grid issues in the U.S allow DigitalBridge to hold a competitive advantage due to their modernized leasing structure for the data centers that allow them to maintain and grow their market share. DigitalBridge differs from the traditional data center leasing model which typically offers fixed terms for five years based on the number of server racks specified in the contract. DigitalBridge has shifted to a payment system based on energy consumption, which allows them to upgrade their equipment during the lease term. This approach is particularly beneficial in states with overtaxed power grids such as Virginia and Texas, where grid renovations are currently underway. The U.S power grid was mostly built in the late 1950s and is not equipped for modern day energy demands of up to 100+ MW to single locations. The outdated power grids have led to difficulty powering data centers and have created barriers for any new entrants. In addition, power grid distribution is so centralized in the U.S that it is difficult to build new ones. Many states across the country are now revamping their power grids, and the issue of outdated grids should be addressed by 2026, where data centers will then be allowed to enhance power to each rack. The accompanying graph shows the expected positive impact of power grid updates on data center rack power capacity.

Average rack density

(kW/rack)



Extenet

Creates small 5G cell networks in urban areas. These cell towers are smaller and have less range than a traditional cell tower. Extenet is one of two companies with the wireless franchise agreement to build in NYC. Small cell towers are typically put on light posts and cover a block of radius.



Switch

Largest Tier 5 private cloud computing provider and has grown EBITDA YoY more than 40%. Datacenters have the highest standards for security and uptime with clients including Google, Nvidia, Tesla, and several government organizations.



Boingo

Partners with different locations such as hospitals and venues to install Wi-Fi, DAS, and 5G small cell towers. Their clients include the University of Arizona and Houston football stadiums.



Deutsche Telekom

A German telecommunications company and is the largest telecommunications provider in Europe by revenue. A key new product is the Cell On a Wheel (COW) which is a miniature mobile cell tower, which has been performing well across Europe.

