# Digital Realty Trust, Inc.

## *Doubling Down on the Digital Direction*

| Downside Scenario | Current Price | Price Target | Upside Scenario |
|---|---|---|---|
| $71.00 | $89.78 | $111.00 | $134.00 |
| *(15%)* | | *29%* | *54%* |

- In 4Q'22, DLR announced that its net leverage had grown to 6.9x compared to expectations of 6.3x. This additional leverage prompted a ~10.0% sell-off as investors priced the additional interest expense into future earnings. While DLR expects to utilize its capital recycling program to reduce its leverage, the Street believes that recent struggles to off-load non-core assets will prevent DLR from generating enough capital to meet FY'23 leverage and capex guidance.
- The Company's PlatformDIGITAL initiative will improve the infrastructure in its data centers to support the digital transformation. DLR has strategically developed products including ServiceFabric that differentiate the Company's data centers from those built with private capital. Additionally, stronger interconnection will bring lower latency, and along with industry-leading power allocations, best positions DLR to capture broader digital transformation tailwinds.
- DLR has established an industry-leading footprint in primary markets, including Northern Virginia (NoVa), where it will benefit from a constraint on new supply. Meanwhile, the Company is expanding its footprint into underserved international metro locations, which has already shown promise as 58.5% of its developments are pre-leased.
- Despite improving tenant occupancy and rental rates, the Street does not believe DLR will be able to engage in capex and grow FFO amidst deleveraging efforts. As a result, DLR trades at a 27.1% discount to its 1-year median NTM P/FFO, thus providing the Fund with an opportunity to enter at an attractive valuation. Through our multiples analysis, we see the Company's shares trading at 16.4x NTM P/FFO, which represents a 29.0% total return for the Fund.

| | |
|---|---|
| Symbol | NYSE: DLR |
| 52-Week Range | $85.76 – 153.50 |
| YTD Performance | (10.5%) |
| Market Cap (M) | $26,717 |
| Net Debt (M) | $17,926 |
| Dividend Yield | 5.4% |
| NTM P/FFO | 13.3x |
| NTM EV/EBITDA | 16.4x |
| ROE | 2.0% |
| ROA | 1.0% |
| ROIC | 1.5% |

| FY (Jan) | 2022A | 2023E | 2024E |
|---|---|---|---|
| **FFOPS** | | | |
| Q1 | 1.60 | 1.69 | 1.82 |
| *YoY Change* | | *5.3%* | *7.7%* |
| Q2 | 1.56 | 1.69 | 1.83 |
| *YoY Change* | | *8.8%* | *7.9%* |
| Q3 | 1.58 | 1.70 | 1.83 |
| *YoY Change* | | *7.5%* | *7.5%* |
| Q4 | 1.51 | 1.70 | 1.83 |
| *YoY Change* | | *12.9%* | *7.7%* |
| Year | 6.23 | 6.74 | 7.30 |

### COMPANY OVERVIEW

DLR is a real estate investment trust (REIT) that provides data center services to colocation and hyperscale customers, as well as interconnection solutions. Founded in Mar'04, the Company is one of the largest publicly traded data center REITs. DLR tailors its products to a variety of industries, including networks, cloud, mobile, digital media, life sciences, gaming, financial services, and artificial intelligence (AI). Its data centers are integral to digitalization trends within each of the aforementioned end markets. In Dec'22, Andrew Power, DLR's former CFO, was named CEO. The Company is headquartered in Austin, TX and will report its 1Q'23 earnings on April 27th, 2023.

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## INVESTMENT SUMMARY

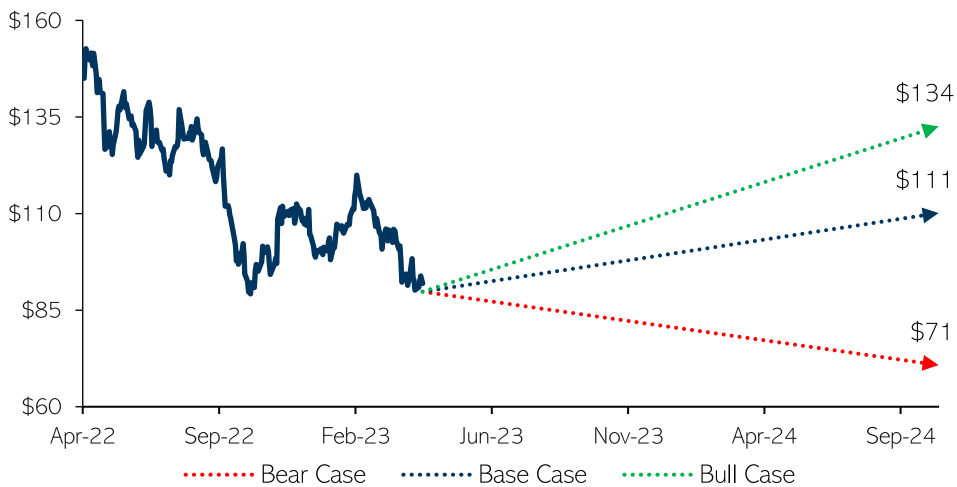
**Headquarters**
Austin, TX

**Chief Executive Officer**
Andrew P. Power

**Number of Employees**
3,412 (as of 4Q'22)

**GICS Classification**
Real Estate

**GICS Sub-Industry**
Data Center REIT




## PRICE TARGET SCENARIOS

**Bull Case Price Target: $134.00**

***12-18 Month Target Return:*** *+54.0%*

DLR is able to lock in clients at higher rental rates as the supply constraints lower the negotiating power of tenants, and the Company's occupancy rates also strengthen as a result. DLR's strong exposure to primary markets, in particular NoVa, allows the Company to grow FFO faster than peers and capture market share. This uptick in pricing power and occupancy draws more interest into the properties that DLR looks to dispose of and create JVs on. As a result, the Company is able to effectively raise capital at the correct valuations, which allows DLR to deleverage to 6.0x by the end of FY'23 without having to issue equity. We see investors valuing DLR at a 19.8x NTM P/FFO multiple because of the more favorable outlook for the data center industry and DLR's refreshed leverage ratios.

**Base Case Price Target: $111.00**

***12-18 Month Target Return:*** *+29.0%*

ServiceFabric is effective in recruiting customers that seek to implement a hybrid-cloud structure. Power constraints remain in primary markets, however, energy providers report that they have found solutions to combat the shortages which causes rents to remain relatively flat YoY. DLR's international expansion properly addresses the lack of data center supply in international markets which leads to a slight uptick in the Company's occupancy rates. DLR is able to sell off a few non-core assets at the correct valuation which generates $375 mn, but ultimately it has to create a few development JVs to plug the capital gap. DLR achieves its goal of getting leverage 'closer to 6.0x' by the end of FY'23. Investors realize that the demand for data centers is not going away any time soon and DLR's stronger financial positioning earns the Company a 16.4x NTM P/FFO multiple.

**Bear Case Price Target: $71.00**

***12-18 Month Target Return:*** *(15.0%)*

Energy providers find a solution before the end of FY'23, causing DLR to partially miss the opportunity of locking tenants in at higher rental rates. Demand and pricing power diminish for data centers, and so does demand for acquisitions as a result. DLR sells less non-core properties than expected for below asking price and the Company has to complete more development JVs, which constrains future FFO. Despite this, DLR still doesn't have enough liquidity and is forced to issue equity at a suppressed valuation which is dilutive. DLR deleverages, but negative sentiment still surrounds the name after a difficult year. As a result, the Company falls to a 10.6x NTM P/FFO.

## INDUSTRY OVERVIEW

### Getting Real About REITs

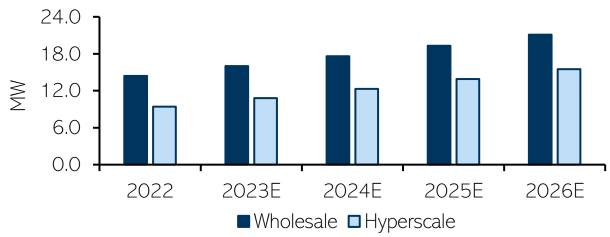
While REITs initially seem complex, in truth they maintain a straightforward business model. REITs own and operate income-generating properties, and provide investors with the opportunity to diversify their portfolios with real estate. They lease out properties to customers and collect rent, which then gets paid out to shareholders through dividends. By law, REITs must pay out at least 90.0% of their taxable income to shareholders, with some paying out 100.0%.

### The (Data) Center of the Universe

Data centers are secure, supervised, and temperature-controlled facilities that house IT and computing infrastructure. Customers rent access to these facilities to store critical data off-premises. The customers bring their own equipment and pay for installation, and the data center simply monitors the equipment for them. By utilizing data centers, tenants are able to circumvent the hassle of building out and maintaining digital infrastructure on-premises.

*Colocation*

**Global Wholesale & Hyperscale Leases**




*Source: Digital Realty Trust, Inc.*

Colocation data centers allow businesses to take advantage of third-party data storage services in accordance with their exact needs. There are two types of colocation: retail and wholesale. Retail refers to when a data center houses hundreds of tenants and they all rent out a portion of the available space. Retail commitments require less than one MW of power capacity. According to EQIX, retail leases are offered on 12-, 24-, or 36-month terms. On the other hand, wholesale refers to when a business requires greater than one MW of power capacity, so it rents out most or all of a data center. The wholesale option is tailored towards companies that expect IT requirements to remain consistent for the foreseeable future. Wholesale leases are much longer than retail, maintaining terms of 5 - 20 years.

Most businesses utilize a combination of retail and wholesale, leasing wholesale in high demand areas and retail in areas with more limited or longer-term growth. In an age where businesses around the world are continually digitizing, colocation provides them with the flexibility to quickly grow their IT infrastructure. Corroborating this trend, **JLL projects the colocation data center market to grow at a CAGR of 11.3% from CY'21 - CY'26.**

*Hyperscale*

Hyperscale is a form of wholesale leasing but hyperscale commitments are much larger, requiring a minimum of 5.0k servers within an area of at least 10.0k square feet. Such massive data centers serve names such as AMZN, META, GOOG, and MSFT that require IT infrastructure capable of handling immense data traffic flow. As such, hyperscale centers provide 20 - 50 MW of power capacity. DLR projects **total global hyperscale leases to grow at a CAGR of 13.0% through CY'26** as the aforementioned tech behemoths drive demand for computing power.

### Location, Location, Location

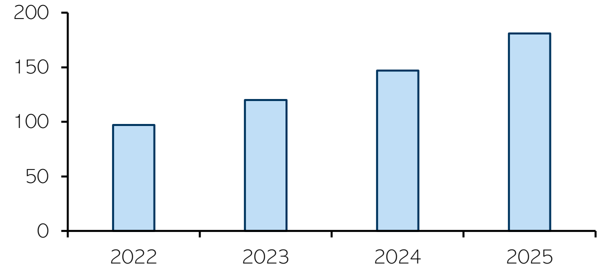
As with all real estate, location is a fundamental consideration. The U.S. is by far the largest market for data centers with 2.7k centers. McKinsey reports that the country makes up 40.0% of the global data center market. DGTL Infra reports that 50.0% of these centers are located in primary markets such as NoVa, Dallas, and Silicon Valley. NoVa is the largest market in the U.S., with 275 data centers and 2.6k GW of power capacity. It is widely cited that ~**70.0% of the world's data traffic flows through NoVa** because of its proximity to government, financial, and tech businesses. As data traffic continues to flow through the U.S., McKinsey reports that **data center demand in the country will grow from 17 GW in CY'20 to 35 GW in CY'30, representing a ~10.0% CAGR.**

Moving outside of the U.S., while countries such as Germany, the U.K., and China do already maintain robust data center networks, there remain several opportunities for growth within underserved areas throughout the EMEA and APAC regions. Statista reports that **global data center demand will grow at a 4.7% CAGR through CY'27.**

## Data Centers Economics

From where we are today, data centers stand to benefit from a veritable explosion of data. Barclays reports that **global data volume is growing at a 21.0% CAGR from CY'21 – CY'26** as cloud computing and emerging technologies such as AI drive demand. Such growth will be highly favorable to data centers, as McKinsey reports that **global spending on data center construction will grow at a 5.4% CAGR through CY'30.**

Global Data Volume (zettabytes)




*Source: Statista*

Now, the average investor may wonder why projected data center construction lags behind data growth, and the answer is that with data center innovation comes greater efficiency. As data grows, so will data centers' ability to handle data more efficiently, so data center buildout will not be as necessary to digitalization in the long term. **But the key phrase here is long term**. Right now, the capabilities for such efficiency do not exist, and according to RBC's Nick McCreesh, **they will not be relevant for years to come**. Data traffic is flowing into the economy at an ever-increasing rate, **which, within our investment horizon, points to increased data center buildout, not efficiency**. And after analyzing the supply-demand dynamics of the industry; well, frankly, it's hard not to be bullish.

*The State of Demand*

Barclays reports demand for data center space is at an all-time high in North America, Europe, and APAC. Corroborating this, **CBRE reports that North American primary market centers saw 686.9 MW of positive absorption, or additional workload, in CY'22, representing a 39.1% YoY increase**. JLL reports that such primary markets all over the world will continue to grow in CY'23 because of their stability and dense network ecosystems. However, power is constrained in these markets. So hyperscalers and other companies are expanding into secondary markets such as Atlanta in order to gain the necessary infrastructure to support their growth phases.

- Barclays reports that Cloud Titans such as Azure and AWS are in a high-growth phase that will continue for the next decade. They are focused on growing scale, and are demanding more third-party data center capacity.

CBRE reports that the pace of digital transformation will continue increasing in CY'23, and as Fortune 500 companies require private networks to support this transformation, operators stand to benefit. CBRE also reports that companies' power requirements continue to grow, which will result in larger lease deals for operators in CY'23.

Looking at Europe, the region still lags the U.S. KPMG reports that Europe has ~1 installed MW per 100k people, whereas the U.S. has ~12 MW. In order for Europe to support digitalization, double-digit buildout is required over the next decade. KPMG projects **European data center buildout to grow at a 15.0% CAGR through CY'25.**

*The State of Supply*

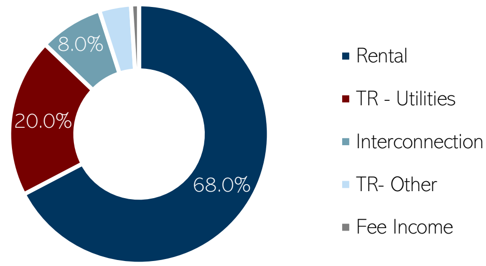
Third-party demand, driven by enterprise users and cloud service providers, currently far outpaces supply. CBRE reports that in CY'22, North American primary markets saw **vacancy rates reach ~3.2%, a record low, even though supply increased 17.0% YoY**. CBRE also reports that the construction pipeline increased 153.0% YoY in CY'22 to 1.8 GW. Yet developers can barely keep up with demand, with **~75.0% of this under-construction capacity already pre-leased**. As a result, data center operators currently boast never-before-seen pricing power.

CBRE reports the average asking rent in North American primary markets, on a kW/month basis in the 250 - 500 kW range, **increased 14.5% YoY in CY'22 to $137.90 per kW/month**, the highest level since CY'16. In an industry where pricing has been historically deflationary, these are remarkable figures. Right now, the data center industry is hitting an inflection point where data traffic is too much for current infrastructure to handle. While such pricing growth is not sustainable long-term, operators will still maintain steady pricing power. CBRE reports that pricing will continue rising in 1H'23 due to low power availability. Only established operators such as EQIX and DLR can navigate this trend because they pass elevated power costs on to customers. And given how supply-constrained the industry is, our team believes that pricing power will remain a tailwind for operators over our investment horizon.

## BUSINESS OVERVIEW

DLR focuses on data centers, leasing out space to wholesale colocation and hyperscale tenants. DLR's growth strategy is simple; focusing on the development and acquisition of new centers. The Street estimates the following revenue breakdown: Rental (~68.0% of FY'22 revenue), Tenant Reimbursements - Utilities (~20.0%), Interconnection (~8.0%), Tenant Reimbursements - Other (~4.0%), and Fee Income (~1.0%).

**DLR FY'22 Revenue Breakdown**




*Source: Evercore ISI*

### Rental (~68.0% of FY'22 revenue)

Rental revenue consists of rent from tenants. Customers lease all or a portion of a DLR center, which provides secure and connected IT infrastructure for the exchange, processing, and storage of data. Rent is broken down into three categories: 0 - 1 MW (retail colocation) (34.7% of FY'22 annualized rent), >1 MW (wholesale/hyperscale) (57.0%), and Other (8.3%). Other refers to "building shell capacity", which is when DLR constructs only the exterior of the center, leaving the interior to the customer; as well as storage and office space within constructed centers.

- DLR currently operates 316 data centers across 38.2 mn net rentable square feet (NRSF) around the world. Its largest market is Northern Virginia, with 18.3% of FY'22 total annualized rent coming from the region. However, the Company continues to diversify globally, with nine of the Company's 10 largest signings in 4Q'22 coming from outside North America in areas such as Japan, Europe, Latin America, and South Africa.
- DLR owns 87.0% of its data center assets and currently maintains a utilization rate of 84.7%. In 4Q'22, the Company reported a retention rate of ~90.0% and a churn rate of 0.8%, the lowest level in three years.
- Due to the high costs associated with switching data centers, DLR's lease terms are generally longer than standard commercial leases. As of FY'22, DLR's weighted average lease term by NRSF was 8.0 years, and its average remaining lease term was 4.7 years. Customers pay rent on a monthly basis as per the existing lease.
- DLR has ~4.0k customers across a diverse mix of end-markets: Cloud (~39.0% of FY'22 revenue), Network (~16.0%), Content & Digital Media (~13.0%), IT (~12.0%), Financial (~12.0%), and Enterprise (~9.0%). Notable tenants include IBM, META, and MSFT. In FY'22, no customer made up more than 10.2% of revenue.

### Tenant Reimbursements (~24.0%)

Tenant Reimbursements consist of expenses that are paid back to DLR by a tenant. Most leases contain provisions under which customers reimburse DLR for all or a portion of property operating expenses and real estate taxes.

### Interconnection (~8.0%)

Interconnection refers to the creation of private networks between tenants or data centers to gain increased flexibility, geographic reach, and speed. DLR provides interconnection services on a month-to-month, one-year, or multi-year term. DLR receives a one-time installation fee for these services in addition to a recurring monthly fee.

The Company's interconnection services are installed directly into its own data centers, thus enhancing the overall value proposition of those centers. Interconnection is particularly vital to the hybrid cloud industry, and DLR offers products such as ServiceFabric and Interxion Cloud Connect that can support tenants' hybrid cloud-related needs.

- DLR provides different interconnection offerings, including Cross Connect, Campus Connect, and Metro Connect. Cross Connect is between two companies in the same data center, Campus Connect is between data centers on the same campus, and Metro Connect is between data centers in the same metro area.

The interconnection space is a major area of growth for DLR. With multiple interconnection-focused acquisitions over the past few years, such as Interxion and Teraco, the Company continues to diversify its revenue stream into interconnection. Barclays projects DLR's Interconnection revenue to grow at a 5.8% CAGR through FY'24.

## UNDERVALUATION & THESIS

In 4Q'22, DLR announced that its **net leverage had grown to 6.9x compared to the Street's expectations of 6.3x**, partially because of the strengthening of the euro. The additional leverage prompted a **~10.0% sell-off in the two weeks following** and remains a focal point for investors. ~20.0% of DLR's debt is floating rate, which becomes increasingly concerning given DLR's leverage and that the higher interest expense directly constrains FFO. Following these issuances in 4Q'22, management stated that **it will be deploying ~$2.2 bn into acquisitions & development, ~11.0% less YoY.** They are also focused on **deleveraging closer to 6.0x by the end of FY'23** through capital recycling efforts. While slower deployment and a focus on deleveraging will pressure FFO in the near term, the Street is underappreciating DLR's ability to both delever and grow concurrently.

*Remember to (Capital) Recycle!*

DLR's higher cost of debt and declining equity valuation have made it difficult to raise capital, so DLR is utilizing more creative methods of capital raising. DLR plans to sell-off non-core assets acquired in portfolios, and create JVs on stabilized properties. However, recently it has struggled to do so given the uncertain environment for capital deployment as well as the declining valuations of the broader real estate market. These struggles have convinced most on the Street that DLR will not be able to raise enough capital in FY'23 to meet guidance. However, our team would argue that this is an oversight of the growing popularity of acquiring data centers, particularly in PE.

- CY'22 was a tough year for PE firms to deploy capital which caused PE completed deal value to fall ~49.5% YoY. Despite this, Synergy Research reports that **acquisitions of data centers by PE firms increased by ~35.0% in CY'22**. Right now, data centers are being viewed as 'safe havens' for investments, even during turbulent times. Additionally, recent improvements in rental pricing and all-time low vacancies, paired with a record level of dry powder in PE firms, make the next 6 - 12 months the perfect time to acquire data centers.

**Management expects to generate $1.5 - $2.5 bn in FCF** from capital recycling. While DLR has ~$1.5 bn in non-core assets, management guided that it will generate ~$500 mn in FY'23 from these sales. The rest will be generated through stabilized and development JVs. Stabilized JVs have historically been the most popular investment from private investors because the properties have full occupancy which allows for immediate ROIs. However, constraints on new development have inflated the desire and value of development JVs because they have the potential for higher returns. Since these three investments are currently in-demand from private investors, and DLR reports it is seeing strong bids for its assets, we expect DLR to generate enough capital to meet both leverage and capex guidance. This will ultimately position DLR to more effectively capture digital transformation tailwinds.

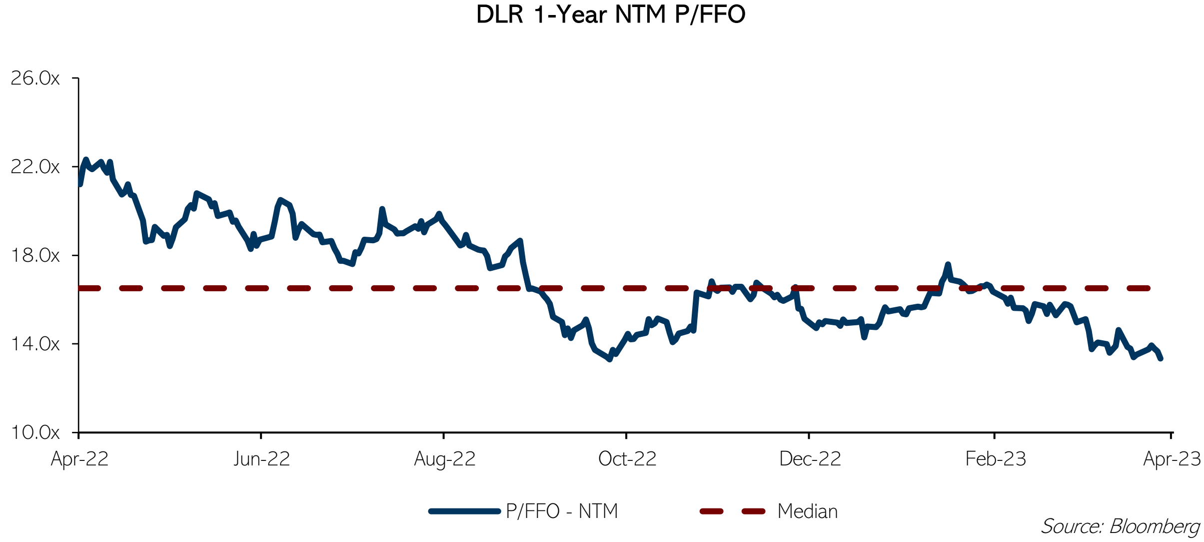
### Don't Buy the Hype

The data center industry has been targeted by short-sellers including Jim Chanos, most known for shorting Enron. These short-sellers maintain the thesis that cloud providers will develop their own data centers, and that as the cost of data continues to fall with the development of new technologies, demand will diminish for leasing data centers.

However, demand has never been stronger for data centers and supply constraints have improved pricing power. Previously, cloud providers have been able to access cheap capital which was used to develop their own centers, however the Financial Times reports these companies now have better uses for their capital with higher interest rates. Additionally, cloud providers haven't invested into developing interconnection, which is becoming increasingly important to data center tenants as it provides the higher internet speeds required for new technologies.

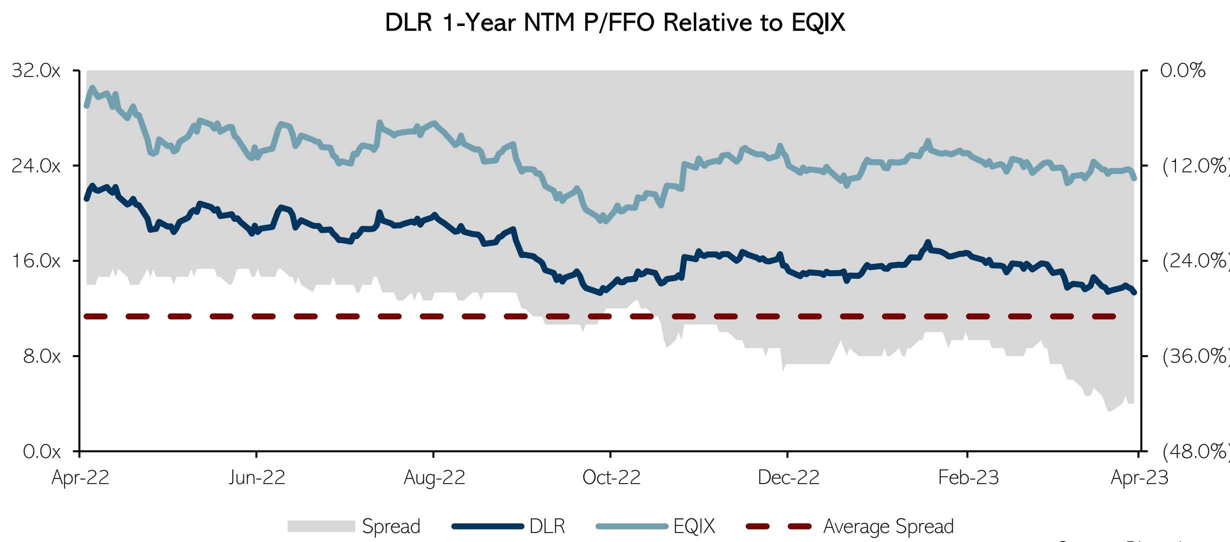
### Similar, But Not the Same?

Despite DLR and EQIX maintaining similar business models, **DLR trades at a 10.0% discount to its average spread to EQIX**. The Street sees that DLR is currently 6.9x leveraged and EQIX is 3.8x, meaning EQIX can take on additional leverage to grow FFO, meanwhile DLR will deleverage and see tempered FFO growth. However, these numbers don't tell the entire story, **which is that DLR owns ~90.0% of its properties in comparison to EQIX's ~52.0%**. Power constraints are limiting new developments, making DLR's ownership a significant advantage. Since both will equally benefit from the digital transformation, we believe DLR's leverage is overshadowing its opportunity.




Source: Bloomberg


Source: Bloomberg




Source: Bloomberg

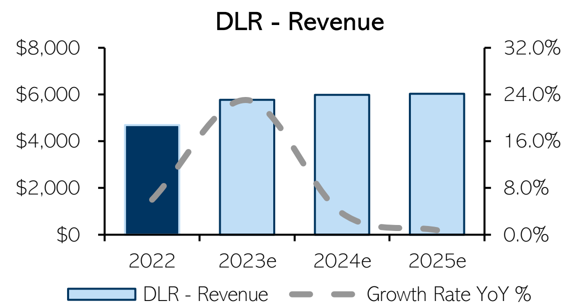
## CATALYSTS & DRIVERS

### Going Global

Where DLR set itself apart as a data center operator is its global platform and ability to steadily add capacity across its geographies. Demand is elevated across its markets, and in a record pricing environment, it has never been easier to grow FFO. In 4Q'22, Company management reported that pricing on new leases signed in both its colocation and hyperscale segments increased for the fourth straight quarter, and RBC reports that such pricing discipline should remain. DLR also maintains a robust development pipeline, with Bloomberg reporting that **the Company ended FY'22 with a $6.8 bn, 436 MW development pipeline in Europe and North America**, with a third of those projects coming online in 2H'23. Our team has projected **FFO to increase at a CAGR of 8.4% from FY'22 to FY'25** as DLR leverages its global scale, pricing power, and development pipeline to drive growth.

*The Americas*

North America is the largest market for data centers, and DLR's positioning within the region will be crucial over the next 12 - 18 months. In such a supply-constrained environment, DLR's data centers are necessary to digital transformation. DLR is already well-established in primary markets such as NoVa, but opportunities for growth remain in both North and South America as hyperscalers require more infrastructure but cannot find space in primary markets.



*Source: Model*

- In NoVa, DLR maintains 25 data centers and ~500 MW of power, by far the most of any operator. In comparison, EQIX has 14 centers and 113 MW. DLR also boasts **a 93.8% occupancy rate** in these data centers, demonstrating just how robust demand is for the Company's services where data is needed most.
- Barclays reports that hyperscalers are currently so focused on growth that they are acquiring space and power wherever it is available, regardless of whether or not the location is a primary market. DLR is fully taking advantage of this tailwind, as RBC reports that the Company has **153 MW of projects underway in the Americas. 84.5% of these projects are already pre-leased**, again representative of overwhelming demand.

*The EMEA Region*

Across EMEA, the necessary digital infrastructure to support ever-growing volumes of data traffic does not currently exist. As discussed in the IO, Europe lags far behind North America and now requires DD% data center buildout over the next decade. As data multiplies in Europe, **DLR stands to benefit as the second largest provider of data centers in the region.** As the Company continues to expand into new, underserved markets throughout our investment horizon, it will grow its geographic footprint and market share, which will in turn bolster FFO further.

- In Mar'20, DLR closed its acquisition of European data center operator Interxion for $8.4 bn. According to Fierce Telecom, **the combined company provided services to ~70.0% of GDP at the time**. DLR continues to grow in Europe, with **276 MW of new projects dedicated to the region as of 4Q'22**. As European data center buildout occurs at a drastic rate moving forward, DLR is well-positioned to capture those tailwinds.
- In Aug'22, DLR closed its acquisition of Teraco, South Africa's largest data center operator, for $3.5 bn, adding further to the Company's African markets of Kenya, Mozambique, and Nigeria. Arizton reports that the African data center market will grow at a **CAGR of 12.7% from CY'22 - CY'27 to $5.4 bn**. Teraco offers the Company further exposure to this heavily underserved market, with Bloomberg reporting that **the acquisition will provide a boost to DLR top- and bottom-line through early FY'23 and beyond.**

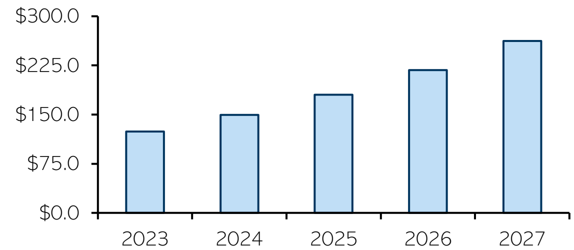
As DLR expands into new regions and signs & renews leases at elevated rates, **we project top-line to grow 23.1% YoY in FY'23 and FFO to grow 9.8% YoY**. For comparison, Barclays has top-line growing 22.5% YoY and FFO 13.2% YoY. Thus proving that despite financing overhang, DLR is undeniably positioned to drive earnings.

## Platform Digital

Given that developing and acquiring data centers has become a popular investment, DLR is looking for new ways to leverage its industry knowledge to differentiate its offerings from new players in the industry. Which led the Company to announce its strategic initiative named PlatformDIGITAL, a strategy to begin creating the IT architecture DLR requires to support the digital transformation. Most importantly, its interconnection infrastructure will support lower latency and more customization for tenants. DLR has added to the initial strategy since its announcement in CY'19, most recently in Jul'22 with the announcement of ServiceFabric, which positions DLR for cloud tailwinds.

*The Cloud & Me*

**Hybrid Cloud Market (bn)**




*Source: Statista*

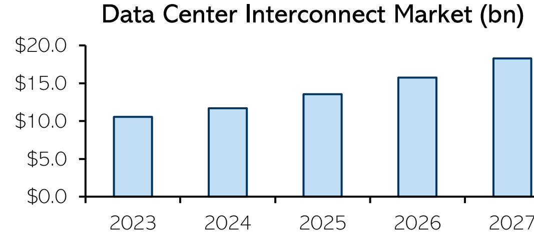
ServiceFabric integrates interconnection platforms to create the largest fabric connecting data centers and the cloud. Put simply, the product aids tenants in seamlessly implementing a hybrid cloud structure. ServiceFabric allows tenants to store sensitive data in the security of a data center while storing less critical data on the more cost-efficient and accessible cloud. Tenants are then able to simultaneously access the data from both storage systems on a single platform. ServiceFabric allows tenants to utilize multiple cloud providers and data center locations, which allows for lower latency and a simplified, more cost-efficient transition from the tenant's current data storage solution. The platform also allows tenants to utilize multiple network providers which gives them the flexibility to pick and choose based upon what provider offers the best speed and prices in each data center location.

**451 Research reports that 96.0% of companies are actively looking to implement hybrid cloud solutions**. ServiceFabric is compatible the largest cloud providers including AWS, Azure, Google Cloud Platform, IBM, NVIDIA, and Oracle. Because of these industry leading relationships, DLR is able to cater to nearly every business searching a hybrid cloud solution. Highlighting this, **91.0% of respondents from a Futuriom survey expect systems such as ServiceFabric to accelerate the adoption of hybrid-cloud structures with businesses**. Not only does ServiceFabric drive interconnection growth, but it is also a premium offering that attracts a wide client base to DLR.

- Since releasing ServiceFabric in 2Q'22, **DLR has implemented ports to 95 of 316 data centers**, based upon tenant requests and anticipation of adoption. The quick implementation positions DLR to capture the expansion of the hybrid cloud market, which **Statista expects to grow at a 20.1% CAGR through FY'27**.

### The Need for Speed (and Power)

**Data Center Interconnect Market (bn)**




*Source: Polaris*

DLR continues to expand its interconnection technology because it increases the bandwidth between data centers and cuts down on latency. Which is becoming increasingly important because it is estimated that by FY'25, **85.0% of companies will expand multi-cloud utilization across multiple regions**. The interconnection assets that were acquired with Interxion and Teraco, have given DLR a solid starting point for this expansion. As interconnection grows to a larger portion of DLR's revenue mix, **the Company's multiple will appreciate in a similar regard to EQIX which is an industry-leader in interconnection**. For reference, EQIX trades at a 31.2x NTM P/FFO multiple.

On another note, emerging power constraints have limited new developments in primary markets because of the limited ability to get power provisions. Meanwhile, the new technological advancements including AI require significantly more cooling and in turn, power. These new technologies lead experts to project that data centers will make up 8.0% of global energy demand in FY'30, compared to ~2.5% today. Increasing demand for power without increasing supply will push the rental rates and occupancy of existing infrastructure upwards. DLR, with industry-leading power provisions of 9.2 mn MW versus EQIX's 7.2 mn MW, stands to benefit most from these power constraints. This trend will meaningfully contribute to **our projection of 14.3% rental revenue growth in FY'23**.

## PEER GROUP ANALYSIS

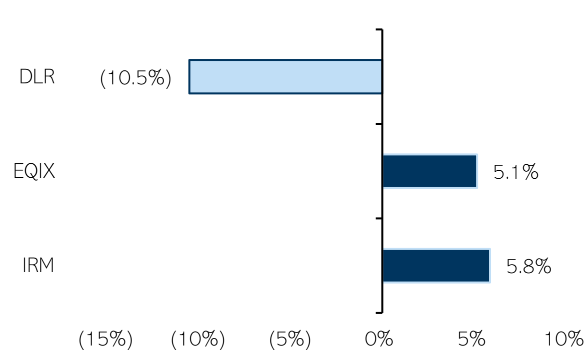
**Equinix, Inc. (EQIX):** EQIX is a data center hosting company that designs, constructs, and operates data center facilities. EQIX operates more than 240 data centers around the world, of which 54.0% are owned. The Company has an explicit focus on the retail colocation market, having only recently begun to diversify into the hyperscale market. EQIX's revenue breakdown is as follows: Colocation (70.0% of FY'22 revenue), Interconnection (17.0%), Managed Infrastructure (6.0%), and Other (7.0%). The Company is headquartered in Redwood City, CA and will report its 1Q'23 earnings on May 3rd, 2023.

**Iron Mountain, Inc. (IRM):** IRM provides information storage and retrieval, data center infrastructure, asset lifecycle management, and information management services. Founded in 1951, IRM operates ~1.4k facilities globally across 96 mn square feet. 24.0% of IRM's square footage is owned rather than leased. Its revenue breakdown is as follows: Global Records & Information Management (84.0% of FY'22 revenue), Corporate & Other Business (8.0%), and Global Data Center (8.0%). The Company is headquartered in Portsmouth, NH and is expected to report 1Q'23 earnings on April 27th, 2023.

**CyrusOne, Inc.:** CyrusOne is a private company that provides data center, managed hosting, colocation, and managed IT services throughout the U.S. and Europe. Founded in CY'00, the Company was taken private by KKR and Global Infrastructure Partners in Mar'22. The Company operates more than 50 data centers across four mn square feet worldwide and works mostly with hyperscale & enterprise businesses. In FY'21, CyrusOne's revenue breakdown was as follows: Lease & Other (78.5% of FY'21 revenue) and Metered Power Reimbursements (21.5%). The Company is headquartered in Houston, TX.

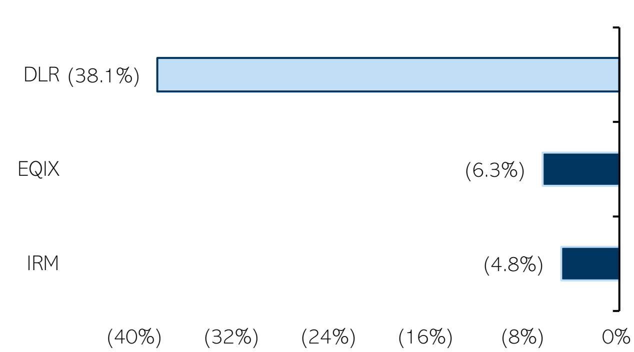
**QTS Realty Trust, Inc.:** QTS is a private company that provides data center facilities and managed services. QTS' data centers provide colocation and monitoring & systems management services. Managed services include cybersecurity, disaster recovery, and database management. Founded in CY'03, QTS was taken private by BX in Jun'21. QTS maintains 28 data center facilities over nine mn square feet across the U.S. and Northern Netherlands. In FY'20, its revenue breakdown was as follows: Rental (96.4% of FY'20 revenue) and Other (3.6%). QTS is headquartered in Overland Park, KS.

**YTD Performance**




Source: FactSet

**One-Year Performance**




Source: FactSet

## Primary Peer Group

| | | | | Sales | | EPS | | EBITDA Margin | | Profit Margin | | Enterprise Value / EBITDA | | Enterprise Value / Sales | | Price / Earnings | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ticker | Market Cap | Enterprise Value | LTM | 2022E | LTM | 2022E | LTM | 2022E | LTM | 2022E | LTM | 2022E | LTM | 2022E | LTM | 2022E |
| Digital Realty Trust, Inc. | DLR | $26,153 | $46,849 | 5.7% | 22.4% | (81.2)% | (9.2)% | 47.5% | 46.7% | 8.1% | 6.2% | 19.1x | 17.5x | 10.0x | 8.2x | 80.5x | 73.8x |
| Equinix, Inc. | EQIX | 64,402 | 78,965 | 7.4% | 21.6% | 38.7% | 11.3% | 36.1% | 45.0% | 10.5% | 9.9% | 29.3x | 21.5x | 11.7x | 9.7x | 89.8x | 79.7x |
| Iron Mountain Incorporated | IRM | 15,383 | 28,624 | 13.6% | 8.3% | 22.6% | (14.9)% | 33.8% | 35.5% | 10.9% | 8.5% | 12.5x | 14.6x | 5.6x | 5.2x | 27.8x | 32.6x |
| High | | $64,402 | $78,965 | 13.6% | 21.6% | 38.7% | 11.3% | 36.1% | 45.0% | 10.9% | 9.9% | 29.3x | 21.5x | 11.7x | 9.7x | 89.8x | 79.7x |
| Mean | | 39,893 | 53,794 | 10.5% | 14.9% | 30.6% | (1.8)% | 34.9% | 40.3% | 10.7% | 9.2% | 20.9x | 18.0x | 8.7x | 7.4x | 58.8x | 56.2x |
| Median | | 39,893 | 53,794 | 10.5% | 14.9% | 30.6% | (1.8)% | 34.9% | 40.3% | 10.7% | 9.2% | 20.9x | 18.0x | 8.7x | 7.4x | 58.8x | 56.2x |
| Low | | 15,383 | 28,624 | 7.4% | 8.3% | 22.6% | (14.9)% | 33.8% | 35.5% | 10.5% | 8.5% | 12.5x | 14.6x | 5.6x | 5.2x | 27.8x | 32.6x |

| Company | | General Statistics | | | Returns Analysis | | | 2022A Leverage Analysis | | | 2022A Coverage Analysis | | | Liquidity Profile | | Credit Profile | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Ticker | Tax Rate | Beta | Dividend Yield | ROIC | ROE | ROA | Total Debt / Cap | Total Debt / EBITDA | Total Debt / Equity | EBITDA / Int. Exp. | (EBITDA - Capex)/Int. | EBIT / Int. Exp. | Quick Ratio | Current Ratio | S&P | Outlook |
| Digital Realty Trust, Inc. | DLR | 7.7% | 0.54 | 5.4% | 1.6% | 2.0% | 1.0% | 0.5x | 7.4x | 0.9x | 8.2x | 8.2x | 2.2x | 0.61 | 0.62 | BBB | Stable |
| Equinix, Inc. | EQIX | 15.0% | 0.63 | 2.0% | 2.2% | 6.3% | 1.5% | 0.6x | 6.1x | 1.4x | 7.5x | 7.5x | 1.9x | 1.64 | 1.80 | BBB | Stable |
| Iron Mountain Incorporated | IRM | 11.0% | 0.93 | 4.7% | 6.7% | 67.7% | 4.3% | 0.9x | 5.8x | 18.2x | 4.6x | 2.9x | 2.1x | 0.69 | 0.81 | BB- | Stable |
| High | | 15.0% | 0.93 | 4.7% | 6.7% | 67.7% | 4.3% | 0.9x | 6.1x | 18.2x | 7.5x | 7.5x | 2.1x | 1.64 | 1.80 | | |
| Mean | | 13.0% | 0.78 | 3.3% | 4.5% | 37.0% | 2.9% | 0.8x | 6.0x | 9.8x | 6.1x | 5.2x | 2.0x | 1.17 | 1.30 | | |
| Median | | 13.0% | 0.78 | 3.3% | 4.5% | 37.0% | 2.9% | 0.8x | 6.0x | 9.8x | 6.1x | 5.2x | 2.0x | 1.17 | 1.30 | | |
| Low | | 11.0% | 0.63 | 2.0% | 2.2% | 6.3% | 1.5% | 0.6x | 5.8x | 1.4x | 4.6x | 2.9x | 1.9x | 0.69 | 0.81 | | |

## RISKS TO INVESTMENT THESIS

### Liquidity Issues

DLR is heavily constrained for capital right now and doesn't have many attractive options. An equity raise would be dilutive and a debt raise in a rising rate environment would only hamper liquidity further. Management does expect to largely circumvent these unattractive options by raising $500 mn from non-core asset sales, $750 mn from core JVs, and $750 mn from development JVs. However, if the Company isn't able to find willing investors, it may have to turn to a potential equity or debt raise, or even cut its dividend. All of these outcomes would cause a significant amount of negative investor sentiment. And even if DLR is able to sell off its non-core assets, TD Cowen reports that the Company may not be able to do so at an attractive rate because of current interest rates. As a result, the Company may not be able to meet its previous guidance of $500 mn of capital raised from non-core asset sales in FY'23. If it can't raise this capital, DLR will not be able to fully engage in the buildout of new data centers, and so will not be able to meet overflowing demand for digital infrastructure. It could also be prevented from reaching its FY'23 target leverage of ~6.0x, which would result in continued higher interest expense. If DLR's liquidity issues were to play out in such a nightmarish way, the Company's multiple would not see any meaningful appreciation.

- *Mitigant:* PE infrastructure funds continue to see data centers as an attractive investment, and with the current levels of dry powder these firms hold, our team firmly believes that DLR will not struggle to find willing investors. Barclays also reports that these infrastructure funds are currently paying premiums for data center assets given how in-demand they are, as evidenced by both record rental and vacancy rates. DLR management has also stated that demand for the Company's assets remains intact despite broader volatility in the capital markets.

- *Mitigant:* DLR has demonstrated that it can sell assets at an attractive rate, even in the current macroeconomic climate. TD Cowen reports that in Mar'23, DLR sold an asset in NoVa in which it had a ~20.0% stake for a total valuation of $150 mn. With that ~20.0% stake, proceeds from the deal would be ~$30 mn. TD Cowen also reports that ~$450 mn of DLR's other non-core assets are currently on the market, which indicates that DLR is on track to reach its $500 mn guidance for non-core sales, which it can recycle into new centers.

### Tenant Bankruptcies

DLR's tenants could struggle to pay rent amidst a rising rate environment. For example, CYXT, a smaller data center operator and DLR's 12$^{th}$ largest client, was recently downgraded to Caa2 by Moody's and is reportedly in distress. CYXT itself is not a concern, as it makes up 1.7% of DLR's annualized rent and extended its FY'23 debt obligations to FY'24. Evercore ISI also reports that if DLR had to reclaim CYXT-occupied assets, those assets are profitable and the mark-to-market on current leases are attractive. However, it is possible that other tenants are facing similar distress, which would result in constrained FFO growth if they are not able to meet the terms of their existing lease.

- *Mitigant:* DLR's top 20 customers are 49.3% of annualized rent, and they are mostly hyperscalers such as MSFT, ORCL, and META. These names maintain robust balance sheets, allaying any fear of missing payments. DLR has also stated that ~50.0% of its tenants are rated investment grade. Finally, MSFT is the Company's largest tenant at 10.2% of annualized rent while every other tenant is 3.6% or less. If tenant bankruptcies were to tick up meaningfully, DLR's revenue stream is diversified enough to minimize any potential downside.

### Asset Obsolescence

If data center efficiency happens faster than expected, Barclays reports that DLR's data centers, which are mostly legacy assets, could see occupancy decrease. In comparison to newer data centers with improved scale, efficiencies, and power, DLR's assets lag behind. DLR's occupancy rate has declined from 92.6% in CY'14 to 84.7% now, and if innovation happens at a faster rate than expected, it is possible that occupancy will decline further and hurt FFO.

- *Mitigant:* DLR has a higher occupancy rate than EQIX's ~82.0%, despite the fact that EQIX is known more for technological innovation rather than data center buildout. This, to us, disproves any fears of DLR asset obsolescence because its services are clearly in demand. Barclays themselves also reports that DLR's development pipeline assets do have the capabilities to compete with more technologically advanced centers.

## VALUATION ANALYSIS

### Model Assumptions

In our FY'23 projections, we assume that core portfolio occupancy grows to 84.5%, up 1.0% YoY, to reflect the constraints on supply of data centers and new developments. Similarly, annualized rent per square foot grows 1.0% YoY to reflect the additional pricing power. The annualized rent per square foot for new developments grows 2.8% YoY to reflect the popularity of new assets given the buildings typically have a higher supply of power and are more suitable for modern applications. We conservatively assume DLR disposes ~1.2 mn in NRSF of non-core assets, which raises ~$375 mn. The proceeds from the disposition will be used to pay down debt, however interest expense still rises ~25.8% YoY given the higher rate environment and DLR's leverage. Additionally, loss from the early extinguishment of debt rises 11.6% YoY. Transaction and integration expense rises ~30.0% YoY to reflect a higher volume of dispositions. DLR's fees generated from JVs rises from 2.8% currently to 3.4% in FY'25 to reflect the Company's desire to create additional JVs to raise capital. For our base case. we used DLR's 1-year median P/FFO because we believe much of the negative sentiment accumulated throughout FY'22 will be alleviated as DLR deleverages its business and it becomes clearer that data centers will still play a key role in the digital transformation. To be more conservative with our estimates, our team applied a 2.0x discount to our bull and bear case multiples.

| Base Case Price Target Calculation - Forward FFO | |
|---|---|
| | 2023E |
| FFO Per Share | 6.74 |
| FFO Multiple | 16.4x |
| Implied Share Price | $110.94 |
| | |
| Current Share Price | $89.78 |
| Dividend Yield | 5.40% |
| *Implied Price Appreciation* | *23.57%* |
| *% Return* | *28.97%* |

| Bull Case Price Target Calculation - Forward FFO | |
|---|---|
| | 2023E |
| FFO Per Share | 6.74 |
| FFO Multiple | 19.8x |
| Implied Share Price | $133.54 |
| | |
| Current Share Price | $89.78 |
| Dividend Yield | 5.40% |
| *Implied Price Appreciation* | *48.75%* |
| *% Return* | *54.15%* |

| Bear Case Price Target Calculation - Forward FFO | |
|---|---|
| | 2023E |
| FFO Per Share | 6.74 |
| FFO Multiple | 10.6x |
| Implied Share Price | $71.29 |
| | |
| Current Share Price | $89.78 |
| Dividend Yield | 5.40% |
| *Implied Price Appreciation* | *(20.59%)* |
| *% Return* | *(15.19%)* |

| | | P/FFO | | | | |
|---|---|---|---|---|---|---|
| | | 14.4x | 15.4x | 16.4x | 17.4x | 18.4x |
| 2023 FFO/share | $6.41 | $92.58 | $98.99 | $105.39 | $111.80 | $118.21 |
| | $6.58 | $95.01 | $101.59 | $108.17 | $114.74 | $121.32 |
| | $6.74 | $97.45 | $104.19 | $110.94 | $117.68 | $124.43 |
| | $6.91 | $99.89 | $106.80 | $113.71 | $120.63 | $127.54 |
| | $7.08 | $102.32 | $109.40 | $116.49 | $123.57 | $130.65 |

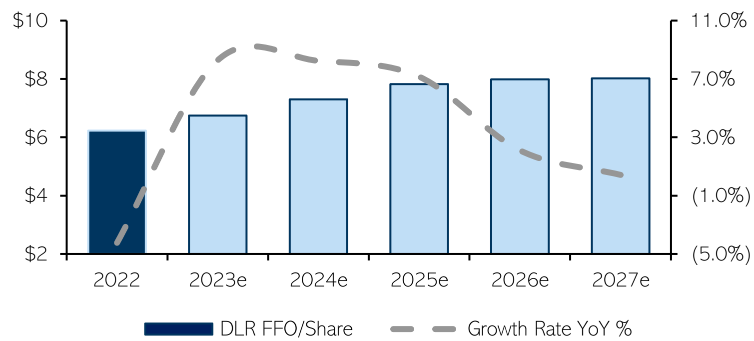
| | | P/FFO | | | | |
|---|---|---|---|---|---|---|
| | | 14.4x | 15.4x | 16.4x | 17.4x | 18.4x |
| 2023 FFO/share | $6.41 | 3.1% | 10.3% | 17.4% | 24.5% | 31.7% |
| | $6.58 | 5.8% | 13.2% | 20.5% | 27.8% | 35.1% |
| | $6.74 | 8.5% | 16.1% | 23.6% | 31.1% | 38.6% |
| | $6.91 | 11.3% | 19.0% | 26.7% | 34.4% | 42.1% |
| | $7.08 | 14.0% | 21.9% | 29.7% | 37.6% | 45.5% |

## FINANCIAL ANALYSIS

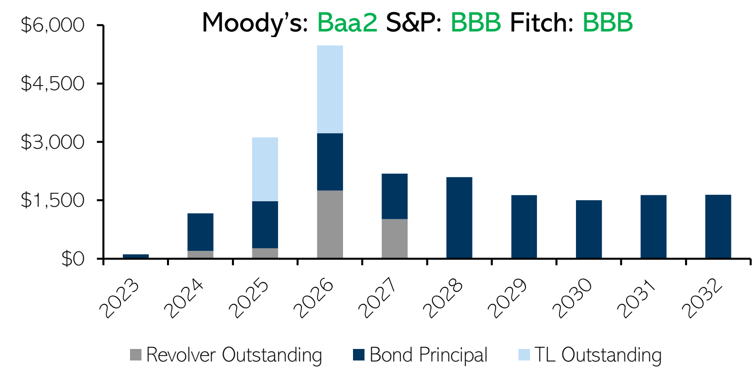
### Revenue Build

| Revenue Build | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|
| Rental Revenues | 3591.7 | 3776.4 | 3863.3 | 3771.3 | 3839.6 |
| Tenant Reimbursement - Utilities | 1508.5 | 1472.8 | 1390.8 | 1320.0 | 1343.9 |
| Tenant Reimbursement - Other | 233.5 | 245.5 | 251.1 | 245.1 | 249.6 |
| Interconnection & Other | 422.1 | 472.1 | 502.2 | 509.1 | 537.5 |
| Fee Income | 17.4 | 19.3 | 24.7 | 29.0 | 29.3 |
| Other | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Total Revenue | 5773.6 | 5986.4 | 6032.6 | 5874.9 | 6000.2 |
| *Revenue Growth YoY* | | 0.8% | (0.2%) | (0.6%) | 0.1% |

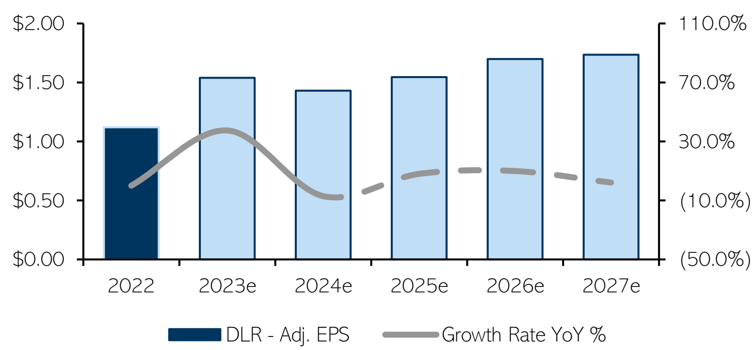
### FFOPS



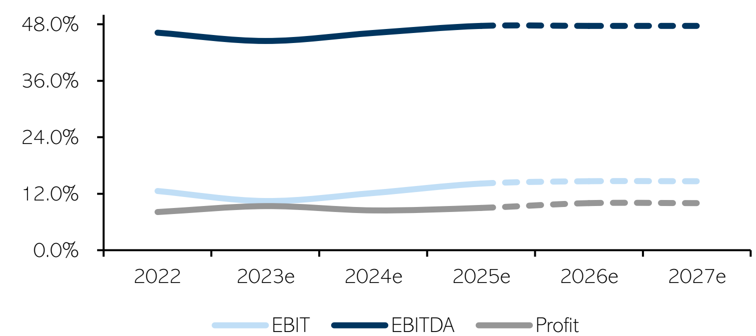

### Debt Distribution




### EPS




### Margins



## APPENDIX

**Exhibit I: Sell Side Discussion Summary**

**Analyst: Nick McCreesh | Royal Bank of Canada | $125.00 PT | Outperform**

**RBC's Investment Thesis:** In the near term, DLR has a financing overhang which is the first issue the Company needs to address. Currently, debt financing is expensive, and an equity issuance would likely dilute DLR's ownership structure given the Company's valuation has fallen 38.1% YoY. While management believes that it can solve this issue through capital recycling, Nick doesn't see enough demand for data center acquisitions to meet guidance. While no option is ideal, Nick believes an equity raise might be the best option to rip off the band-aid and address the problem at hand. In the longer term, Nick remains bullish on DLR's opportunity to benefit from secular tailwinds.

**DLR vs. EQIX:** In regard to each business model, Nick mentioned that DLR focuses on wholesale leasing, while EQIX is more so focused on retail leasing. Like most of the Street, Nick believes EQIX has a better opportunity to grow FFO in the near term, given its lower leverage profile. Meanwhile, DLR will have to focus on deleveraging, and the Company may have to slow down development capex. Ultimately, this would hinder FFO growth in 24 - 36 months because that is when the projects begun today would become operational and contribute to FFO. However, both offer relatively similar services which is why Nick believes both maintain similar growth drivers.

**Locations:** Primary markets have developed for two reasons, the locations are in close proximity to important infrastructure, and the proximity of data centers to each other can help significantly reduce latency. However, these areas that are densley populated with data centers are seeing energy supply constraints given the rapidly growing power consumption of data centers. As a result, really only the largest players with existing relationships to local energy providers have been able to get power provisions. Which has caused new developments to be delayed until power provisions are awarded. This lack of supply has caused pricing power to shift in favor of established data center operators and has forced vacancy rates in primary markets to fall to record lows of 3.2%.

**Analyst: Brendan Lynch | Barclays | $79.00 PT | Underweight**

**Barclay's Investment Thesis:** Brendan's team sees three primary problems with DLR's business that justify the underweight rating. The first is DLR's current leverage ratios and lack of liquidity. DLR is currently 6.9x levered and ~50.0% drawn on revolving credit facilities. Brendan said that rating agencies want this down to ~30.0% by FY'24; otherwise, DLR is at risk of losing its investment grade credit rating, which would likely add ~$100.0 mn to interest expense each year. Brendan believes that DLR will have to sell higher-quality properties to meet fundraising goals which DLR may not want to do. If DLR does not raise enough from these dispositions, the Company will likely have to issue equity or cut its dividend. Ultimately, DLR has to plug the gap in funding, and no options are attractive.

The second problem is that new technologies will require additional power and less space. DLR's older assets have a lower power capacity than data centers being built out today. New technologies continue to demand additional power, which will likely lead to lower occupancies because there simply won't be enough power to support the new equipment throughout the data center. The final problem is with DLR's tenants. DLR is exposed to some clients that are struggling financially or legally, and there is a risk of default with these tenants, which would hinder FFO.

**Private Equity:** PE firms have historically been more interested in stabilized assets because the investment is similar to a bond whereas in this case, they are consistently collecting rent, instead of an interest payment. Brendan noted that the demand for acquiring data centers did decelerate throughout CY'22. However, PE firms maintain significant dry powder, and it has become more difficult to develop data centers given the constraints on energy supply. As a result, there could be a higher interest from private capital in JVs and acquisitions in FY'23.

DLR has had success in completing JVs. Usually, it will create a JV on a stabilized asset to realize a return and raise capital which is eventually deployed into development; a higher risk and return investment. However, given current power constraints, private capital has become increasingly interested in development JVs. Brendan does not think it makes sense for data centers to do development JVs because it will eventually constrain FFO. However given the strong demand and DLR's need for capital, the Company will likely pursue these deal in FY'23 to deleverage.

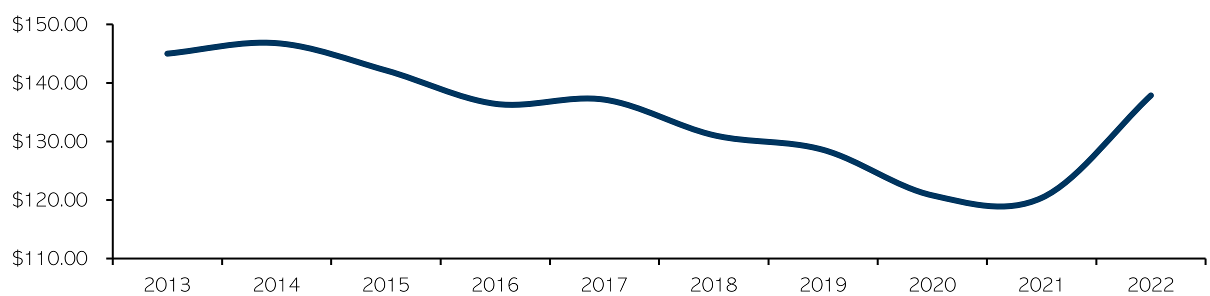
## Exhibit II: Consolidated Income Statement

| Income Statement | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|
| Revenue | 4,427.9 | 4,691.8 | 5,773.6 | 5,986.4 | 6,032.6 | 5,874.9 | 6,000.2 |
| *YoY Growth* | 0.0% | 6.0% | 23.1% | 3.7% | 0.8% | (2.6%) | 2.1% |
| Rental Property Operating and Maintenance | 1,570.5 | 1,825.8 | 2,309.4 | 2,334.7 | 2,292.4 | 2,232.5 | 2,280.1 |
| Property Taxes and Insurance | 207.8 | 191.7 | 259.8 | 269.4 | 271.5 | 264.4 | 270.0 |
| Depreciation and Amortization | 1,486.6 | 1,577.9 | 1,963.0 | 2,035.4 | 2,020.9 | 1,938.7 | 1,980.1 |
| General and Administrative | 400.7 | 422.2 | 519.6 | 508.8 | 482.6 | 470.0 | 480.0 |
| Transactions and Integration | 47.4 | 68.8 | 98.2 | 89.8 | 90.5 | 88.1 | 90.0 |
| Impairment of Investments in Real Estate | 18.3 | 3.0 | 2.9 | 3.0 | 3.0 | 2.9 | 3.0 |
| Other | 2.6 | 12.4 | 17.3 | 18.0 | 18.1 | 17.6 | 18.0 |
| Total Operating Expense | 3,733.9 | 4,101.9 | 5,170.3 | 5,259.1 | 5,179.0 | 5,014.3 | 5,121.1 |
| | | | | | | | |
| Operating Income (EBIT) | 694.0 | 590.0 | 603.3 | 727.3 | 853.6 | 860.7 | 879.1 |
| | | | | | | | |
| Equity in (loss) earnings of unconsolidated entities | 62.3 | (13.5) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gain on disposition of properties, net | 1,380.8 | 176.8 | 375.3 | 179.6 | 60.3 | 58.7 | 60.0 |
| Other income (expenses), net | (4.4) | 8.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest expense | (293.8) | (299.1) | (388.1) | (378.6) | (362.0) | (323.1) | (330.0) |
| Loss from early extinguishment of debt | 18.7 | (51.1) | (57.7) | (29.9) | (18.1) | (17.6) | (18.0) |
| EBT | 1,857.6 | 411.9 | 532.7 | 498.3 | 533.9 | 578.7 | 591.1 |
| Income Tax | (72.8) | (31.6) | (8.0) | (7.7) | (8.0) | (8.7) | (8.9) |
| Net Income | 1,784.8 | 380.3 | 540.7 | 506.0 | 541.9 | 587.4 | 599.9 |
| Net (income) loss attributable to noncontrolling interests | (38.2) | (2.6) | (28.9) | (23.9) | (24.1) | (23.5) | (24.0) |
| Preferred Stock Dividend | (45.8) | (40.7) | (40.4) | (41.9) | (42.2) | (41.1) | (42.0) |
| Gain (loss) on redemption of preferred stock | 18.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net income available to shareholders | 1,718.8 | 337.0 | 471.4 | 440.2 | 475.5 | 522.7 | 533.9 |
| Basic EPS | 6.0 | 1.2 | 1.6 | 1.5 | 1.6 | 1.8 | 1.8 |
| Diluted EPS | 5.9 | 1.1 | 1.5 | 1.4 | 1.5 | 1.7 | 1.7 |
| | | | | | | | |
| EBITDA | 2,180.6 | 2,167.9 | 2,566.3 | 2,762.7 | 2,874.5 | 2,799.4 | 2,859.1 |

## Exhibit III: Consolidated FFO Calculation

| FFO Calculations | 2021 | 2022 | 2023e | 2024e | 2025e | 2026e | 2027e |
|---|---|---|---|---|---|---|---|
| Net Income | 1,718.8 | 337.0 | 471.4 | 440.2 | 475.5 | 522.7 | 533.9 |
| Real Estate D&A | 1,463.5 | 1,547.9 | 1,760.0 | 1,760.0 | 1,760.0 | 1,760.0 | 1,760.0 |
| Noncontrolling Interserst + Operating Partnership | 39.1 | 7.9 | 10.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Unconsolidated JV Real Estate D&A | 85.8 | 123.1 | 128.0 | 128.0 | 128.0 | 128.0 | 128.0 |
| Depreciation Related to Noncontrolling Interest | 0.0 | (22.1) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Gain on Real Estate Transactions | (1,445.2) | (177.3) | (375.3) | (179.6) | (60.3) | (58.7) | (60.0) |
| Impairment of investments in Real Estate | 18.3 | 3.0 | 2.9 | 3.0 | 3.0 | 2.9 | 3.0 |
| FFO | 1,880.3 | 1,819.4 | 1,997.1 | 2,161.6 | 2,316.2 | 2,364.9 | 2,374.9 |
| FFO/share | 6.5 | 6.2 | 6.7 | 7.3 | 7.8 | 8.0 | 8.0 |

## Exhibit IV: Average Asking Rent in North American Primary Markets




*Source: CBRE*

## TFA STATEMENT

Established in honor of Professor William C. Dunkelberg, former Dean of the Fox School of Business, for his tireless dedication to educating students in "real-world" principles of economics and business, the William C. Dunkelberg (WCD) Owl Fund will ensure that future generations of students have exposure to a challenging, practical learning experience. Managed by Fox School of Business graduate and undergraduate students with oversight from its Board of Directors, the WCD Owl Fund's goals are threefold:

- Provide students with hands-on investment management experience
- Enable students to work in a team-based setting in consultation with investment professionals.
- Connect student participants with nationally recognized money managers and financial institutions

Earnings from the fund will be reinvested net of fund expenses, which are primarily trading and auditing costs and partial scholarships for student participants.

## DISCLAIMER