



Wednesday, June 14, 2017 4:24 PM ET **Exclusive**

Digital Realty, DuPont Fabros merger could price data center sector higher

By Karn Dhingra and Muslim Hasan Naqvi

Digital Realty Trust Inc.'s \$7.6 billion deal to acquire DuPont Fabros Technology is largely a positive development for shareholders of both companies and the data center sector writ large, according to analysts.

The all-stock merger agreement will create a data center real estate investment trust with a total enterprise value of \$34.3 billion. The deal is expected to be finalized in the second half of 2017.

In a note, Baird analyst David Rodgers said the pricing of the deal should allow the data center sector as a whole to be priced higher. As a result, the analyst increased the price targets of data centers by approximately 13% in the aggregate.

Digital Realty's bid for DuPont is unlikely to be topped by a financial buyer because of Digital Realty's strategic ability to integrate DuPont's existing data center operations and build new assets on the company's undeveloped land, Rodgers said.

Jefferies analyst Jonathan Peterson told S&P Global Market Intelligence that the proposed merger is a good exit for DuPont shareholders and addresses many issues in the company's portfolio, most notably tenant concentration. DuPont shareholders will receive a 15% premium on their shares, based on the closing price of \$55.36 per share on June 8, the day before the deal was announced.

US data center REIT peer comparison

Company (ticker)	Market capitalization (\$M)	Year-to-date total return (%)	Premium (discount) to NAV (%)	Number of properties	
				Currently operating	In construction
Equinix Inc. (EQIX)	34,219.7	24.12	12.56	65	4
Digital Realty Trust Inc. (DLR)	18,378.3	16.37	14.10	164	9
CyrusOne Inc. (CONE)	5,041.6	29.54	1.13	44	8
DuPont Fabros Technology Inc. (DFT)	4,732.4	39.82	22.11	12	6
CoreSite Realty Corp. (CORT)	3,639.1	35.30	17.84	17	2
QTS Realty Trust Inc. (QTS)	2,569.3	8.59	(1.13)	27	-

Data as of June 9, 2017.

Property count is derived from public filings and includes wholly owned properties, investments in unconsolidated joint ventures and properties held for sale; excludes pre-construction and land properties.

Source: S&P Global Market Intelligence

On the plus side for Digital Realty shareholders, the company will be set up for future growth, Peterson said.

"One thing it gives them is a much larger development pipeline, which should help them with their growth the next two to three years," Peterson added, noting that the merger will expand Digital Realty's presence in Northern Virginia, Chicago, and Silicon Valley, among the top data center markets in the U.S.

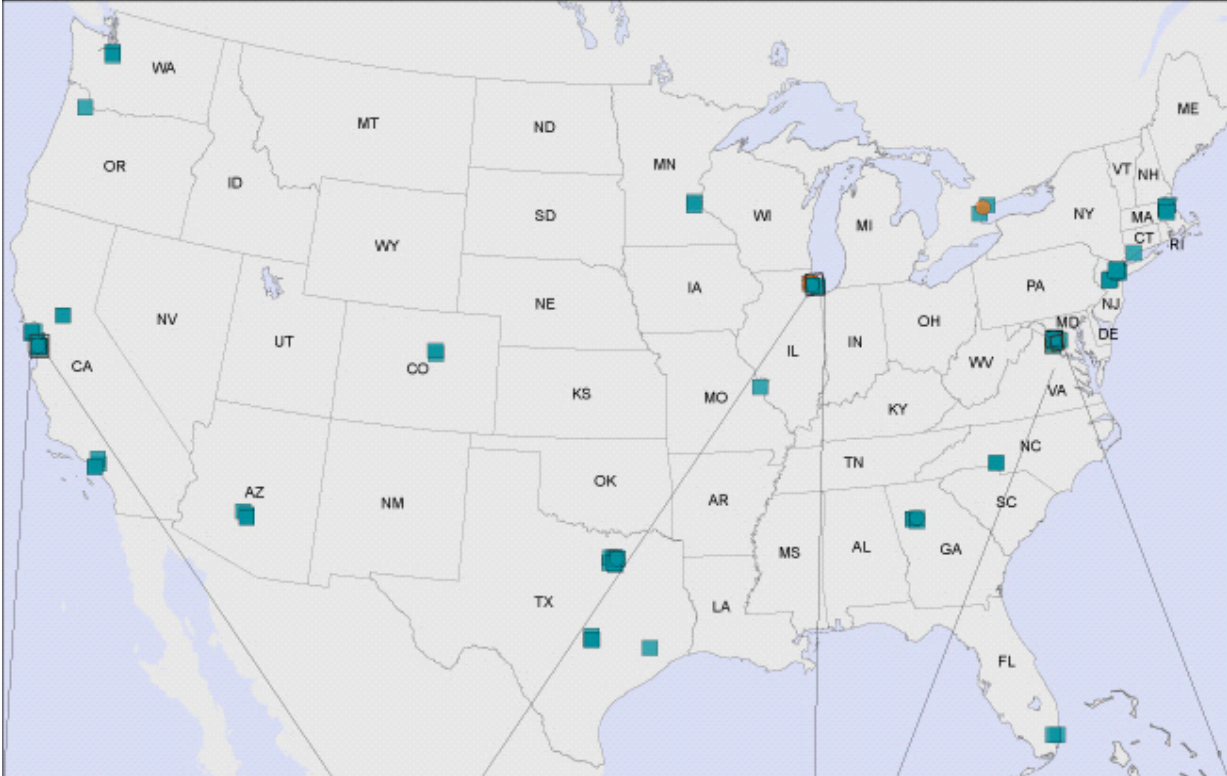
The acquisition of DuPont's 12 data centers will also increase Digital Realty's exposure to hyper-scale cloud customers and give the company exposure to DuPont's high-profile tenants such as Microsoft, Facebook and Apple, Peterson added. Hyper-scale data centers allow web and software companies, particularly subscriber-driven companies like Netflix, to keep their data needs small in order to keep costs down.

The combined company is expected to save \$18 million in annual general and administrative costs.

Even though Rodgers said the deal was positive for Digital Realty, he downgraded the company to "neutral." Rodgers said CoreSite Realty Corp. was his preferred stock in the data sector center.

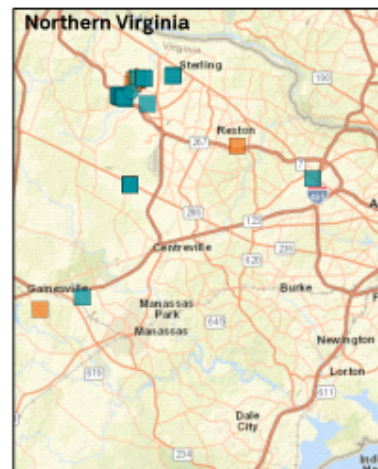
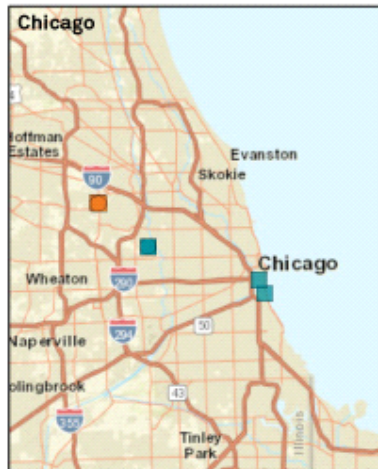
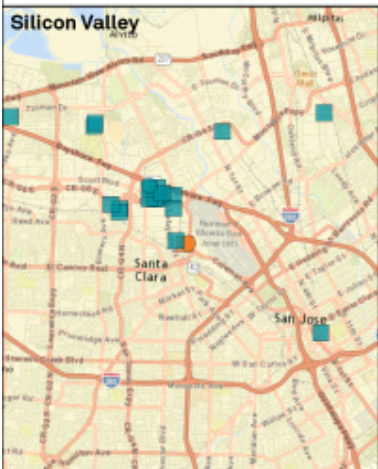
Rodgers said that the combined company would own about 40% of capacity in the Northern Virginia market, which may trigger antitrust issues. He said in the note that Digital Realty may need to dispose of approximately 37 megawatts of capacity in Northern Virginia, equating to approximately 4% of the combined company's capacity.

DuPont Fabros Technology and Digital Realty Trust combined US and Canada exposure



Company
 ● Digital Realty Trust Inc. (DLR)
 ● DuPont Fabros Technology Inc. (DFT)

Status
 ● In construction
 ■ Open



Imagery sources: Esri, HERE, DeLorme, USGS, Intermap, Increment P Corp., NRCAN, Esri Japan, METI, Esri China (Hong Kong), Esri (Thailand), MapmyIndia, ©

Data as of June 9, 2017.
 Excludes pre-construction and land properties.
 Analysis limited to properties that are individually reported in public filings.
 Exact location information not available for all properties.
 Source: S&P Global Market Intelligence
 Map Credit: Elizabeth Thomas

S&P Global
 Market Intelligence