

Data Center Download: Accelerating Growth, Record Interest in the Space and Transformational Opportunities

Our world has become more reliant than ever on data. As technological innovation stretches from the smartphones in our pockets to wearables, self-driving cars, cloud computing, artificial intelligence, Industry 4.0 and the connectivity of everything, the reliance on secure, dependable data has and continues to reach new heights.

The need for data centers was intensified and accelerated by COVID-19, as workplaces, classrooms and social halls migrated from in-person to online. Popular cloud-based digital applications, from Zoom to Netflix, all require the support of critical data centers.

The data center sector is hundreds of billions in market size, growing and filled with opportunity, which has led to significant private equity and strategic interest for product, service and software providers in the space. Market participants forecast that the sector will continue to grow at a double-digit rate as 5G wireless, cloud activity, increased video streaming, cybersecurity, urbanization and demand for more connectivity across all aspects of the economy continue to expand, accelerating the need for data centers, servers and related products and services.

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The increasing need for data on a global basis, coupled with investments, like the bipartisan Infrastructure Investment and Jobs Act in the U.S. – funding for investments in critical, data center infrastructure – present attractive secular demand drivers within the space. With positive tailwinds contributing to strong growth over the next decade and beyond, there is steady conviction in the sector's outlook.

There has never been a more alluring time for owners and investors to garner attractive multiples for their data center businesses and buyers are willing to pay all-time high prices given the long-term growth in the sector. There is a unique opportunity in the market for sellers as recent consolidation has led to a limited number of available, high quality investment opportunities in the coveted data center space. Additionally, there is increasing interest from large, multi-national strategics and financial sponsors looking to penetrate or expand their presence in the data center space, which is driving fierce competition in M&A sale processes.

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In the last year, Lincoln advised on multiple landmark data center transactions – the sale of CIS Global to nVent, the sale of Anord Mardix to Flex and the growth capital raise for Vantage Data Centers. From these deals, Lincoln has distilled multiple key insights:

Wide Ranging Strategic Buyer Interest: Given the attractiveness of the data center space and secular growth trends, strategic buyer interest is broad and not always predictable. Interest, on a global basis, ranges from i.) the logical data center players to ii.) tangential businesses looking to increase minimal exposure to the space and iii.) businesses with a thesis in the space, but no current data center exposure. It is critical to engage an advisor that knows, and has relationships globally, with the full spectrum of potential strategic buyers.

Unique Customer Dynamics: Large, global hyperscale (e.g., Amazon, Google, Microsoft) and colocation (e.g., CyrusOne, Equinix, K2 Data Centers, Vantage Data Centers, Virtus Data Centers) data center players dominate the space. Significant time and investments are required to win customers, but once “in,” they present tremendous growth opportunities. How customer relationships – strength, embedded nature, geographic presence – and concentration are presented to potential buyers and lenders is crucial to a successful transaction process.

Attractive Long-Term Demand Visibility: The phased nature and timeline of data center builds offer significant visibility to manufacturers throughout the supply chain. With visibility spanning months to years, many manufacturers are afforded confidence in their near-term forecasts and longer-term outlook. Data center build-outs often happen in planned “phases.” Once suppliers are proven reliable in the early phases they are entrenched for future phases. The value associated with demonstrating revenue visibility through opportunity pipelines, bookings and backlog is immense.

Global Presence Is Key: The data center space is increasingly global. Hyperscale and colocation players are looking for supply partners with the scale to mirror their global presence and provide standardized service, quality, product breadth and technical expertise in any geography. Global reach for manufacturers supporting the data center supply chain was once a key differentiator, but is increasingly becoming “table stakes” as the industry continues to expand worldwide.

If you are contemplating your exit strategy, financing needs or looking at acquiring a player in the data center space, contact a member of Lincoln International’s Energy, Power & Infrastructure team.

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