

Exponential Data Center Growth Fuels Unprecedented Buyer Interest and Investment Opportunities

The creation, adoption and use of data-intensive technology has accelerated in recent years, driving explosive growth in the data center market. Ongoing advancements in 5G, Internet of Things, artificial intelligence (AI) / machine learning (ML) (including generative AI) and increasingly complex workloads, along with the continued adoption of cloud services for enterprise applications, are fueling a rising demand for technology infrastructure, particularly data centers.

Data center capital expenditures, which reached ~\$98B in 2023, are expected to grow at a compound annual growth rate (CAGR) of around 13% through 2028.¹ Hyperscalers – companies that provide massive, scalable cloud infrastructure to support large-scale internet operations and storage needs – are leading market growth, investing substantial resources to position themselves as industry leaders. This significant expansion is driving a notable supply and demand imbalance of reliable services and high-quality products, presenting an opportunity for operators and investors in the space to generate immense value for their shareholders.

In Lincoln International's below perspective, we unpack the data center industry and explore four key insights all stakeholders should know.

Data Center Trends

The anticipated surge in AI demand is generating an unprecedented increase in data and capacity requirements, leading to record levels of capital investment in data center facilities and digital infrastructure. Strong secular trends are expected to drive accelerated growth over the next decade and beyond, fostering tremendous confidence in the sector's outlook.

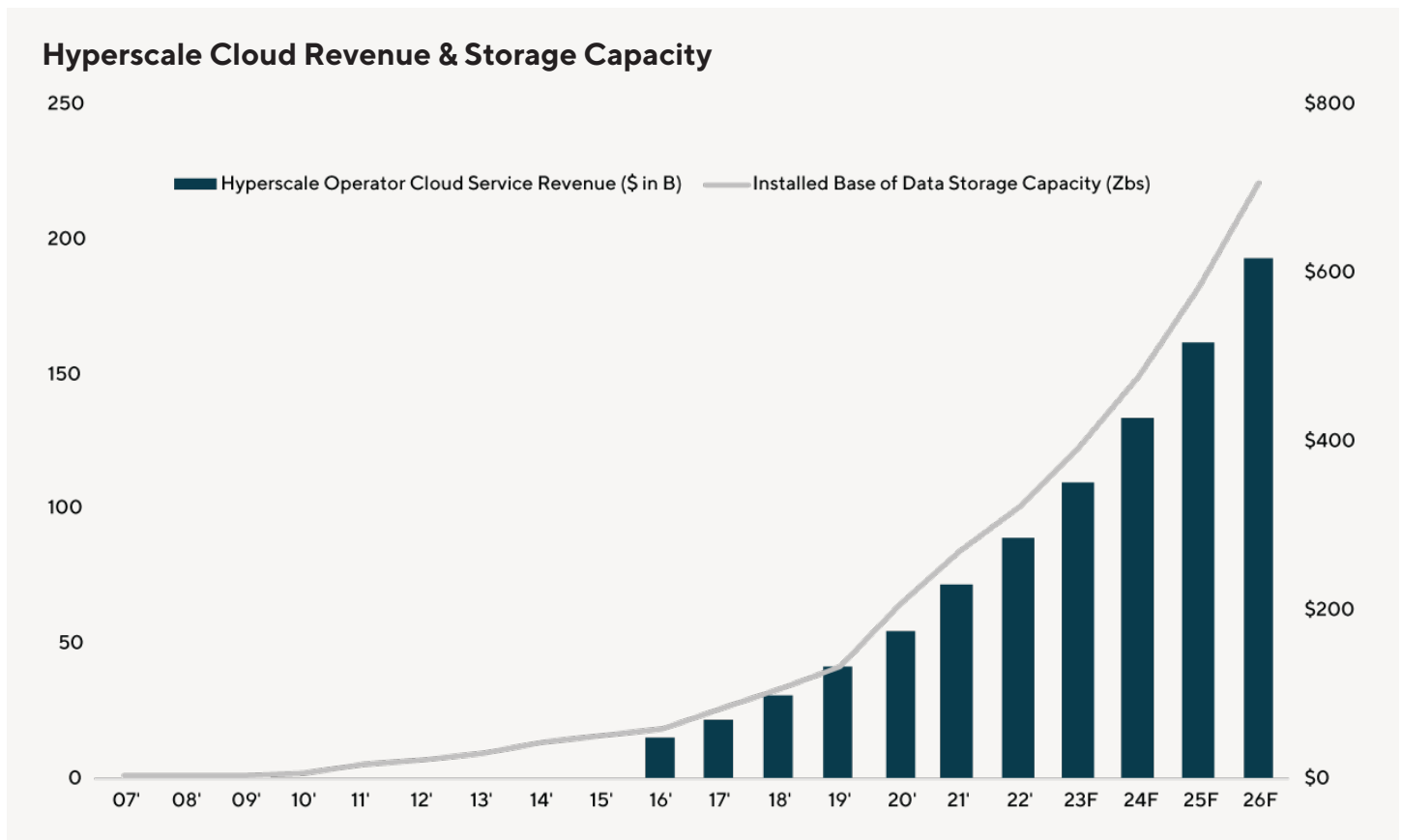
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It has never been a more opportune time for operators and owners to secure attractive multiples for their data center businesses as investors are eager to invest significant capital given the sector’s long-term growth prospects. The robust outlook and fragmentation of the data center services and products markets are attracting increased interest from large, multinational strategics and financial sponsors alike. These buyers see a unique opportunity to drive rapid organic and inorganic growth immediately upon acquisition. This dynamic is fueling fierce competition in M&A sale processes, with some buyers attempting to pre-empt sale processes to establish an early foothold in the market.

Lincoln has advised on several notable data center transactions, most recently representing Direct Line in its sale to CBRE. From these deals, Lincoln has distilled four key insights:

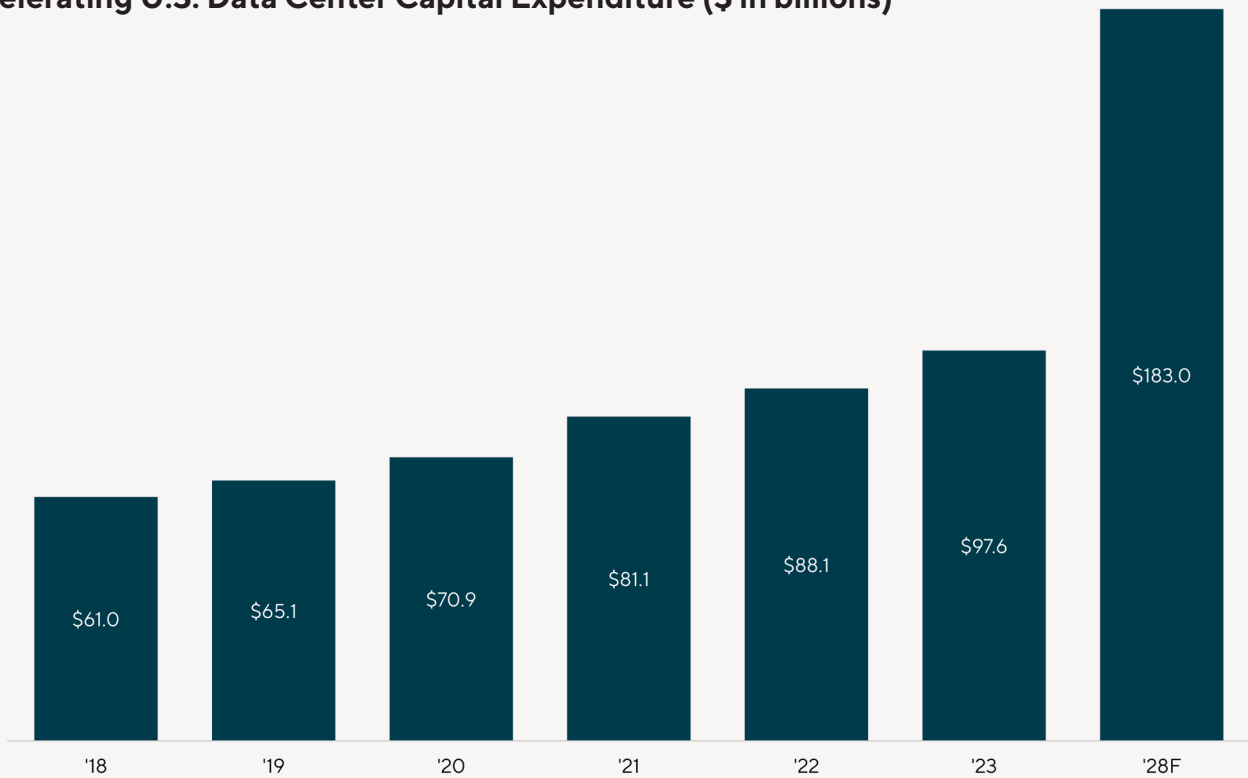
1 Unique Client Dynamics

Large, global hyperscale players (e.g., Amazon, Google, Meta, Microsoft) and colocation providers (e.g., Equinix, Vantage Data Centers) dominate the data center space and are poised to drive significant growth over the next decade; hyperscalers are projected to grow nearly 10% faster than the broader market¹. Developing and securing relationships with these clients requires substantial time and investment, but once established, they offer tremendous growth opportunities and a high level of repeat revenue. Firms working with hyperscalers often experience some client concentration due to the sheer size and the limited number of these companies. Highlighting the strength, entrenchment and diversification of these customer relationships across geographies, sites and engagement levels, among other positioning strategies, is crucial for a successful outcome.



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Accelerating U.S. Data Center Capital Expenditure (\$ in billions)



We expect data center expenditures to nearly double over the next five years.

2 Attractive, Long-Term Demand Visibility

The phased nature and extended timelines of data center builds offer significant visibility for services and product providers throughout the value chain. Data center build plans are often anticipated / known years in advance, enabling providers to strategically position their operational infrastructure to service sites effectively when needed. Strong communication channels with clients provide substantial insight into build requirements, bolstering confidence in pipeline opportunities and long-term projections. Collaborating with clients to quantify future opportunities and showcasing a robust existing pipeline is essential for instilling confidence in forecasted performance.

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Rapidly Increasing Capacity Across All Key U.S. Markets

Key Markets	Commissioned	Under Construction	Additional Planned	Capacity Growth	Market Scale
Northern Virginia	7,943	1,257	13,734	~190%	
Texas	2,360	209	2,252	~105%	
Oregon	2,000	345	2,187	~125%	
Arizona	1,679	219	3,478	~220%	
Georgia	1,290	209	2,065	~175%	
Ohio	1,222	426	3,672	~335%	
California	1,140	48	1,161	~105%	
Illinois	978	58	2,053	~215%	
Washington	586	125	442	~100%	
Utah	427	14	750	~180%	

3 Labor Dynamics and a Dedicated Talent Strategy

The data center industry has a shortage of high-quality labor due to rapidly increasing demand outpacing service providers’ ability to find and train technicians. While not unique to this market, the shortage poses distinct challenges for businesses that struggle with the retention and recruitment of a skilled, safe workforce amidst rapid growth. Firms with strong retention rates and the ability to quickly recruit and train new employees can better control service quality and respond more rapidly to diverse client demands. In contrast, firms relying on subcontractors must rigorously vet their partners’ quality and face potential constraints in labor availability, which can result in missed short- and long-term opportunities in the rapidly moving data center market.

4 Wide-Ranging Buyer Interest

The data center sector’s attractiveness, driven by strong growth trends and industry fragmentation, has garnered significant interest from both strategic and financial buyers. Strategic buyers include groups with a strong existing presence in data centers and companies seeking to establish or increase their exposure to the market. Meanwhile, many financial sponsors seek to invest in this space for the first time.

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To ensure a successful outcome, it is crucial to engage an advisor who fully understands the landscape of services and product providers; maintains strong relationships with senior decision-makers at the most active buyer and investor groups; and is knowledgeable of the data center market's unique nuances.

If you are considering an exit strategy, seeking financing needs, looking to acquire a business in the data center space or want to learn more about the industry, contact a member of Lincoln's Energy, Power & Infrastructure Group.

Source: (1) Synergy Research, Dell'Oro, Datacenterhawk and publicly available information

For other perspectives, visit us at www.lincolninternational.com/perspectives.

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