

# Equinix, Inc (NASDAQ: EQIX)

Sector: Real Estate (REIT)



# EQUINIX

Target Price	Current Price	52 Week High	52 Week Low	P/E	Market Cap.	Dividend Yield	Beta
\$518.25	\$381.82	\$495.35	\$361.90	130.54	\$29.87 B	2.39%	0.49

## Business Description

Equinix is a data center REIT. Their services include colocation, leasing rack space for servers while providing cooling, power, and security. Their second major line of business is interconnections, leasing fiber connections between collocated parties which also collects monthly revenues and an initial instalment fee. Colocation accounts for 78% of revenue, while interconnections account for 16%. The remaining 6% is MIS consisting of managed services only available in select regions.

With technological changes, companies now exchange data, content, internet services, and cloud storage. Equinix has grown a healthy customer mix consisting of five verticals. 25% network providers such as AT&T, 20% financial services such as Bloomberg, 14% Content & Digital media such as DirectTV and Netflix, 13% Enterprise such as Ford Motors, and 28% Cloud & IT such as Amazon Web Services. Hosting these partners within the same data center provides interconnection benefits making the density of partners a distinguishing factor when picking a colocation provider.

## Industry Trends

Equinix competes with 650 other companies across the globe in data center offerings but maintain their position as the largest data center operator in the world. The data center business looks to be in the early stages of its growth, with Equinix being one of the first movers. The industry looks to grow in double-digits in the future driven by positive trends in global internet traffic, e-commerce, connected devices, high definition video and cloud-based storage and services.

## Investment Thesis

Our investment thesis centers on three pillars: growing demand, top solution provider, and high barriers to entry and switching costs. Nearly 90% of data was created in the last two years just showing how much more demand of interconnectivity and data server space will need to be available in the coming years. As enterprises continue moving to hybrid IT, content and network demands increase, and public clouds make themselves available to collocate these factors will create high sustainable growth in the following years. The company is growing a critical mass of partnerships in key strategic hubs and metropolitan areas for lower latency or reduced operating costs. Together they can support a global customer solution allowing customers to scale their business as needed. The business is very hard to reproduce requiring large amounts of capital and an established set of key partners. Customers also face high switching costs of moving their servers to a different center and usually lock one to three-year contracts. Equinix's premium service alongside higher switching costs allows them to charge a rising premium on their cabinet space.

## Valuation Assumptions

WACC: 5.7%  
Terminal FCF Growth Rate: 3.0%  
Upside: 35.7%  
Sources: Bloomberg, Annual reports

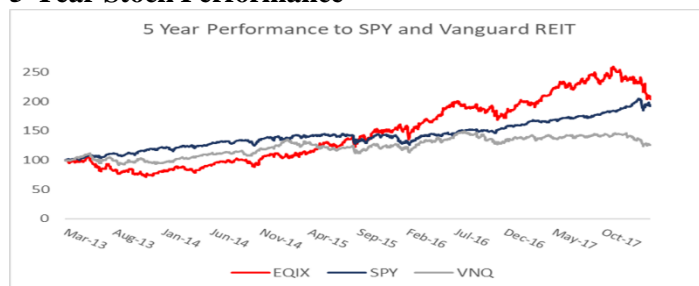
## Key Financials

Current stock price: \$381.82  
Intrinsic Value: \$518.25

## Corporate Social Responsibility

Equinix is devoted to corporate social responsibility and strong corporate stewardship. They focus on green energy for their data centers and community outreach through their Equinix Impact Program. Equinix is above industry average in both ESG disclosure score and percentage of independent directors.

## 5-Year Stock Performance



## Competitive Analysis

Equinix competes with a number of competitors across its different business segments, but there is no other data center operator that has the same global scale and operational diversity as Equinix. Their closest competitor is Digital Realty Trust, but they do not operate in all the same business segments as Equinix and they do not have the same robust AFFO metrics.

## Competitive Advantages

Equinix's competitive advantages stem from their global footprint, high-quality data centers, and dynamic business ecosystem. EQIX has established a critical mass of customers with an unmatched global scale comprising of 190 data centers in 48 metro areas with 176,000+ cross connects. Equinix's data centers demonstrate operating excellence with a 99.9999%+ uptime record and they provide less than 10 milliseconds latency to more than 90% of the population of North America and Europe. This builds a dynamic business ecosystem that connects 8,500+ customers directly with their customers and partners. The ecosystem hosts connections with almost all carriers available locally and offers access to all major public cloud.

## Risks

Some of the key risks for Equinix are customer retention, maintaining premium pricing, and operating in a capital-intensive industry. The risks of customer retention and maintaining premium pricing are mitigated through their high barriers to entry and the high switching costs for customers. The capital-intensive industry serves as another barrier to entry because Equinix is willing and able to allocate capital that competitors are not.

## Report Prepared By:

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