



## **Entering the Data Centre Era**

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In 2020, COVID-19 spread throughout the world and changed our way of life overnight. Today, many office workers work from home; masks are mandated in indoor establishments; and plexiglass has been erected to keep employees safe.

# We have adapted.



However, not everything is grim. As humankind, we have adapted. Today, many of us can enjoy a workout at home on our Pelotons; online commerce has improved tremendously so that we can buy goods and groceries at the click of a button; and some of us have been using video conferencing software to see and talk to our loved ones abroad.

Demand for online services has increased during the pandemic, and digital infrastructure has become one of the most exciting areas in which to invest. We believe demand for online services is likely to persist even after the pandemic is over.



*Source: Equinix*

As a result, we are optimistic about the demand for data centres that provide the physical space to house customer servers. By investing in data centres, we can invest in the growth of online services without having to guess which platform or service provider will come out on top.



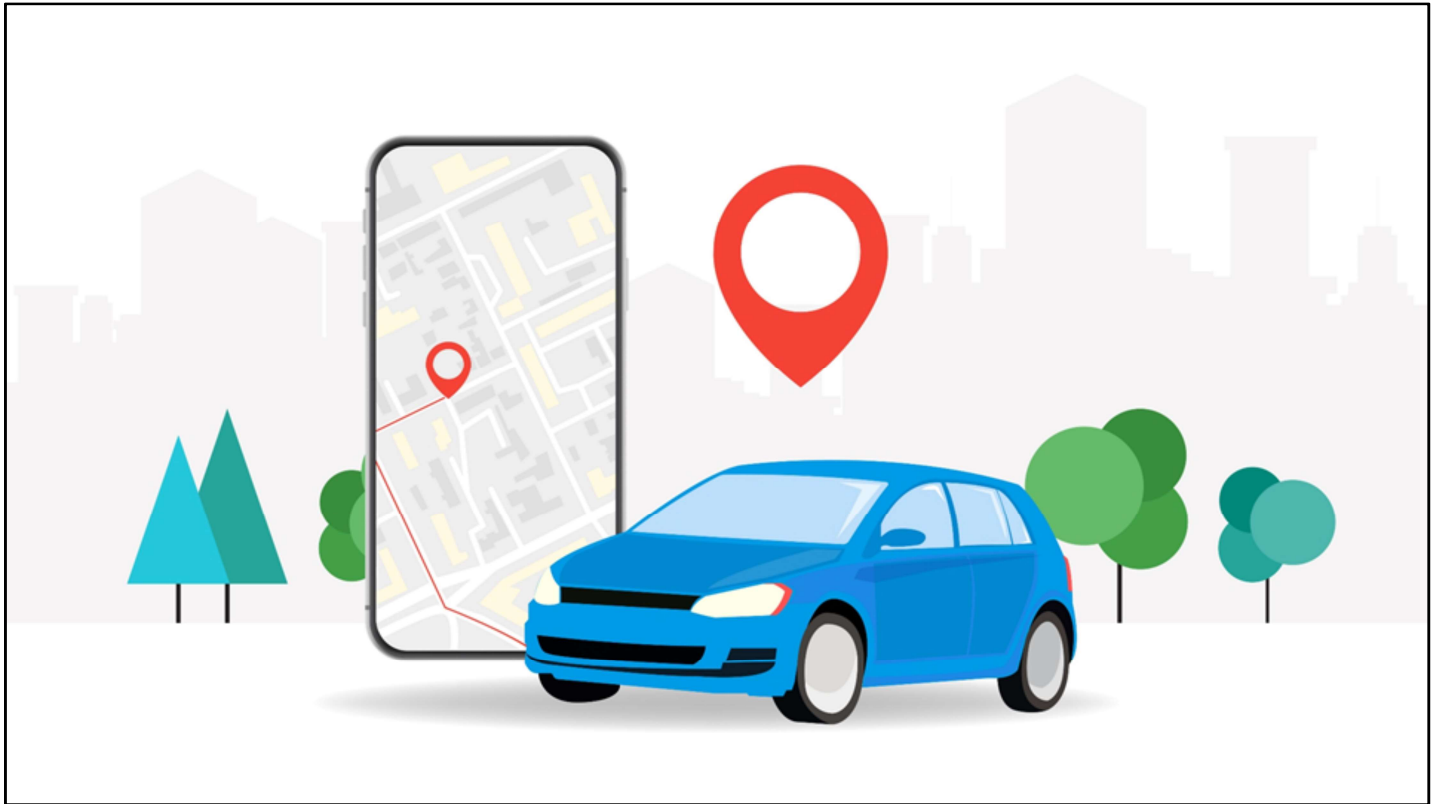
*Source: Equinix*

Our horse in that race is Equinix. Equinix leases physical data centre space globally to a wide variety of businesses, mainly in financial services, information technology and media. These tenants not only require significant computing and storage power, but they also take advantage of interconnections to other tenants that Equinix serves.



Before we talk about interconnections, let's discuss the cloud and how Equinix fits.

In layman's terms, the cloud means the internet. When you hear about cloud computing, it's the same as if you said "internet computing." Basically, data is being crunched and stored at a server in a remote location.



Here's an example. When you need an Uber, your phone opens the app and locates your GPS position, but it's a server somewhere else that calculates your distance from an Uber driver, the path that driver will take to meet you and the time it will take for them to arrive.

Our computers or smartphones only retrieve the information they need, and they leave the tasks of calculating and computing to a server farther away.

That's where interconnections come in.



Instead of having data travel across the internet, which poses a cybersecurity risk, interconnections allow data to travel directly from one server to another. Compare this to someone transporting ultra-classified documents. Would you rather multiple layovers or a direct flight to your destination?

The added benefit is also speed. Data travels much faster when there's a direct link than over the internet.

These connections could happen between servers of different companies or multiple servers from the same company. At Odlum Brown, for instance, our servers are in different physical locations for business continuity reasons. We rely on interconnections to connect these servers to each other quickly and safely.

# Sustainable Competitive Advantages



The interconnections business differentiates Equinix from its peers.

Unlike other data centre REITs that provide space catering to the big technology companies, Equinix focuses on customers who depend on interconnections for the services they provide. Interconnections is also a high-margin business for Equinix because there isn't much incremental cost to provide this service. As a result, Equinix generates superior returns compared to its peers, which results in greater cash flows for reinvestment and furthers its lead in the industry.



# Network Effects



The interconnections business has natural network effects, as customers who require these services want to be in the same data centres as other businesses. With over 380,000 links across Equinix's data centre portfolio, the REIT's interconnections business is 2.5 times denser than its closest competitor. As a result, it becomes the preferred choice for customers.

This density also protects their data centres from becoming obsolete, as these interconnections would have to be unwound and rebuilt elsewhere – a costly endeavour for clients. It's estimated that the cost of moving a data centre is somewhere near \$10,000 per cabinet, while Equinix's monthly rent is in the ballpark of only \$2,000. Many customers also see cost savings from moving their on-premise servers to offsite Equinix locations.



As a result, customers are happy to stay with Equinix, which leads to significant recurring revenue and strong customer retention.

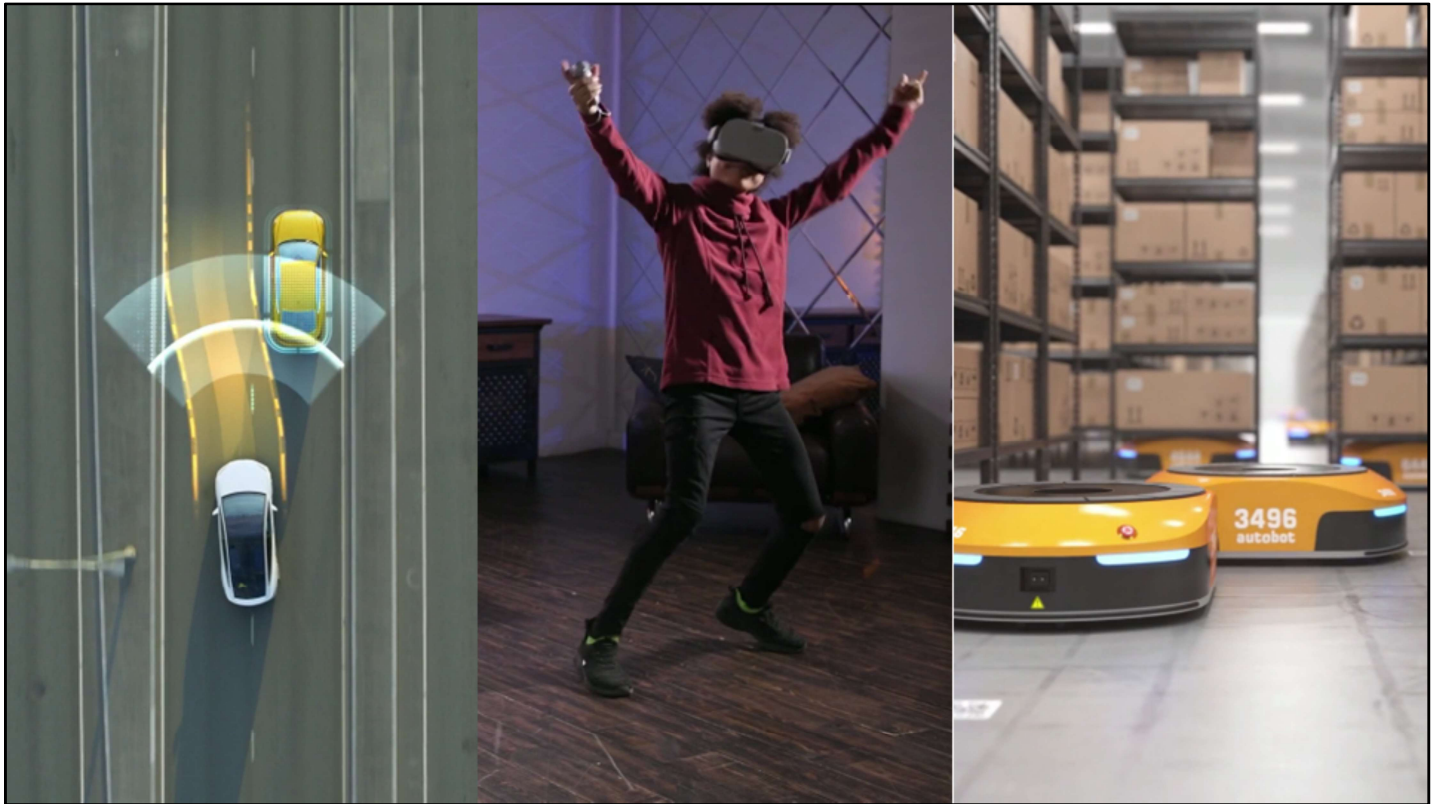


The future for Equinix is bright. Not only do we believe that its existing business will continue to perform well, it also has over 40 data centres currently under construction. Moreover, Equinix also offers ancillary technical services, which make it a one-stop shop compared to competitors.

For example, Packet, a recent Equinix acquisition, helps customers deploy servers. It tailors to customers' needs, and allows them to choose their required specifications and software. It's akin to having a suit tailor-made instead of off-the-rack. Over time, Equinix can offer more services like this that will expand its ultimate opportunity.



Communications infrastructure is also approaching a major investment cycle as telecom companies upgrade their cellular infrastructure from 4G to 5G. 5G promises faster speeds and lower latency, which will allow companies to develop new and innovative technologies.



Examples include:

- autonomous vehicles that can communicate with each other to ensure safer transportation;
- virtual reality that may come into gaming and provide a more immersive experience; and
- collaborative robots that can free up time spent on monotonous tasks such as scanning bar codes and moving products inside an Amazon warehouse.

The reality is, these innovations are closer than we think.

**“The dinner bill for 5G is coming...  
and it’s going to be expensive.”**

**– Marc Ganzi**



Digital infrastructure veteran Marc Ganzi says, “The dinner bill for 5G is coming... and it’s going to be expensive.” Ganzi is talking about the additional digital infrastructure needed to effectively deploy 5G, which will include a lot of new data centres.

This provides a significant opportunity for Equinix as its data centres will be in great demand.



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