



KKR and GIP's Acquisition of CyrusOne

Deal Discussion

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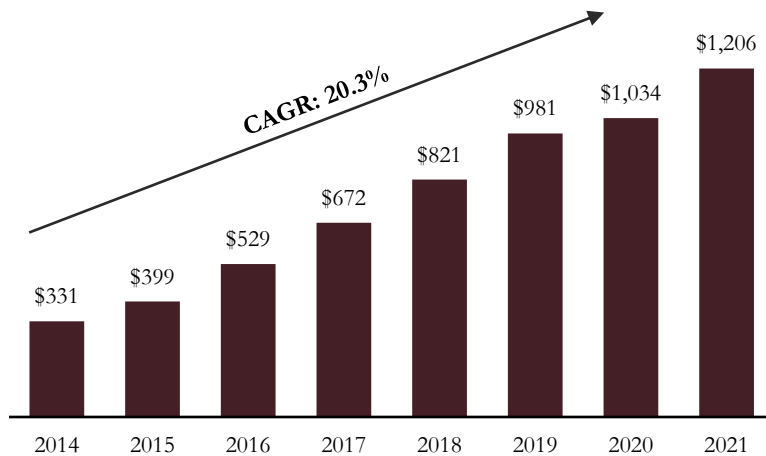
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Involved Parties Overview

Company Description

- Fully integrated, self-managed data center real estate investment trust ("REIT") that owns, operates and develops enterprise-class, carrier-neutral, multi-tenant and single-tenant data center properties
- Founded in 2001 and completed IPO in 2013
- Own 53 data centers, primarily in the US
- CyrusOne targets large enterprises with 65% of revenue coming from its top 20 customers and ten of those twenty being in the Fortune 20, with its largest customer, Microsoft, accounting for 20% of annual revenue
- Cloud service providers and other information technology firms account for half of CyrusOne's revenue

Revenue Growth (\$M)



Management Team



Eric Schwartz, CEO: former Chief Strategy and Development Officer and President of the EMEA region at Equinix; MBA from Harvard

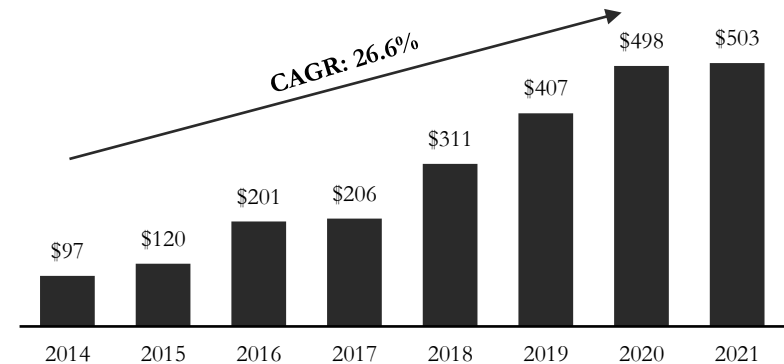


Katherine Motlagh, EVP & CFO: former CFO of the Europe, Africa, and Latin America regions at American Tower



John Hatem, EVP & COO: former Director of Design and Construction for ConceptCSI Global Data Center Solutions

Cash Flow (\$M)

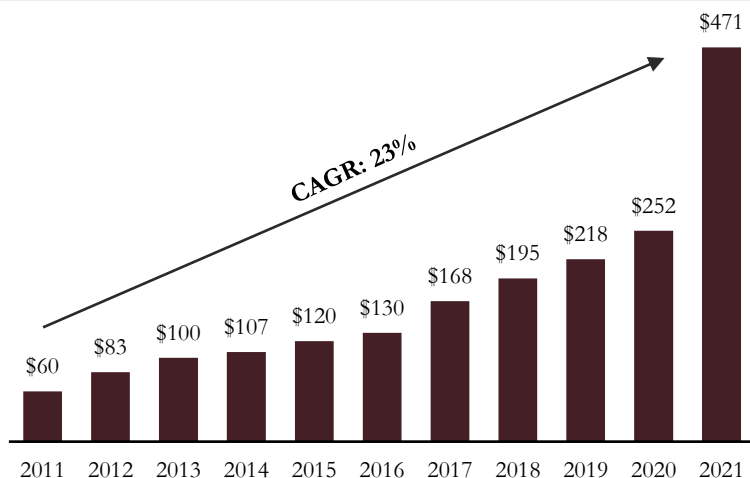


CyrusOne's second largest expense is depreciation, which means the company has low net income, but significant cash flow

Company Description

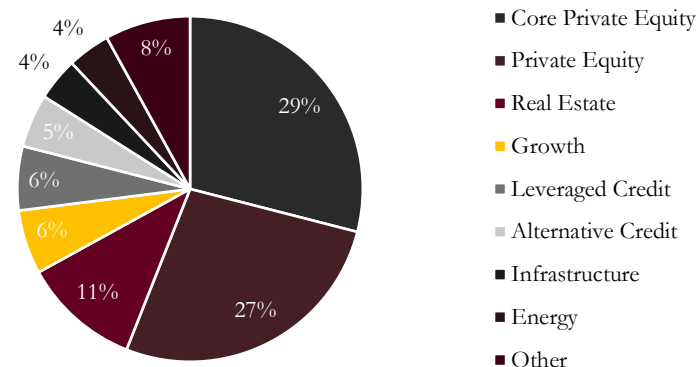
- KKR is a leading global investment firm that offers alternative asset management as well as capital markets and insurance solutions
- Founded in 1976 and has completed more than 650 private equity investments in portfolio companies with a total transaction value in excess of \$675B as of December 31, 2021
- Ten different business segments including private equity, real estate, infrastructure, hedge fund, and capital markets
- Dry powder of \$112B at the beginning of 2022
- One of the main players in popular private equity book “Barbarians at the Gate” – available in the QPCG drive

AUM Growth (\$B)



Source(s): KKR

Investment Holdings by Asset Class



Recent Infrastructure Investments

Company	Year	Price	Region
	2022	N.a.	Cayman Islands
	2022	\$347M	New Zealand
	2022	\$1.1B (49% stake)	Spain
	2022	\$1.9B	USA

Global Infrastructure Partners (GIP)

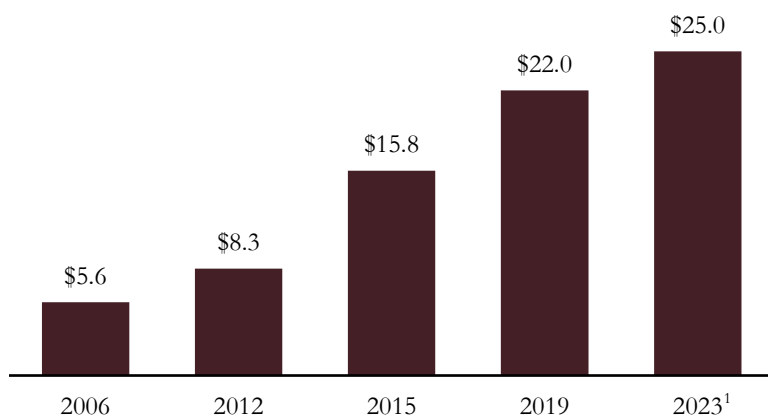
Acquirer Overview



Company Description

- Established in 2006, Global Infrastructure Partners (GIP) is a leading independent infrastructure fund manager that makes equity and debt investments in infrastructure assets and businesses
- GIP targets investments in the energy, transport, digital infrastructure, and water/waste sectors in both OECD and select emerging market countries
- GIP manages \$84B and its funds currently own 48 portfolio companies which have combined annual revenues of \$68B
- GIP's equity funds are broken down into global equity funds (OECD infrastructure opportunities) and specialized equity which covers Australia, emerging markets, and eco-investing

Infrastructure Funds Raised (\$B)



Source(s): GIP, Pitchbook, Reuters, Tracxn

1. Currently raising this fund

Management Team



Adebayo Ogunlesi, Chairman & CEO: former Head of the Global Investment Banking Division at Credit Suisse; MBA & JD from Harvard



Michael McGhee, Deputy Chairman: former Head of Global Transportation and Logistics at Credit Suisse



Raj Rao, President & COO: former Director in the Mergers and Acquisitions Group of the Investment Banking Division of Credit Suisse

Recent Infrastructure Investments

Company	Year	Price	Region
 ATLAS RENEWABLE ENERGY	2022	N.a.	Latin America
 VTG	2022	N.a.	Germany
 Sydney Airport	2021	\$17.7B	Australia
 EQUIS	2018	\$5.0B	Singapore

Transaction Overview

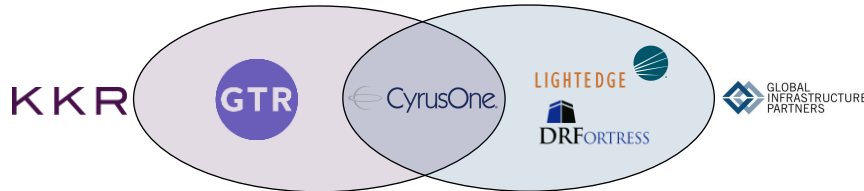
Transaction Overview

KKR and GIP Acquired CyrusOne



Transaction Overview

- On March 25th, 2022, KKR and GIP completed their take-private levered buyout of CyrusOne for \$15B
 - Valuation of 26.4x TEV/EBITDA and 12.8x TEV/Revenue – \$90.50 per share
- The acquisition complements existing investments from both PE firms and represents the 7th largest LBO in 2022 YTD
- Existing Investments:



Highlights

- Injection of capital available to CyrusOne through transaction allows for acceleration of EU expansion
- Highly differentiated offering with ultra-reliable, flexible, and personalized data center engineering
- Opportunity to acquire an established player with a proven management team in a high-growth market

Transaction Map



Transaction Overview

Past Sale Processes



Sale Process Explored in April 2019

- In April of 2019 CyrusOne received two unsolicited offers from various parties, including a close competitor, to acquire the firm for \$64.62/share and started a formal sale process
- This followed the exodus of CyrusOne's President & CEO and discussions with shareholders which encouraged the company to explore exit opportunities
- This formal process saw Morgan Stanley acting as CyrusOne's financial advisor and later reached out to 15+ prospective buyers, with ~10 significant parties as the process continued

April 2019 Final Bids and Sale Process Outcome

- Party A, a competitor of CyrusOne made an initial bid of \$64.62 in July 2019, which was matched by a consortium party in August 2019
- While not all parties were specifically revealed, some of the interested consortiums included:
 - KKR, Stonepeak Infrastructure, and I Squared Capital
 - EQT Partners and DigitalBridge Private Equity
- Morgan Stanley officially requested interested parties to submit a final bid by September 30, 2019
- CyrusOne's share price reached as high as \$77.19 prior to the final bid date, resulting in all parties indicating they would no longer be able to submit a competitive bid, ending the process

Potential Acquirers

Potential Buyers Who Executed NDAs and Began Due Diligence Process

Party A	Party F	Competitor
Party B	Party G	KKR
Party C	Party H	Pension Fund
Party D	Party I	Digital Infra. Fund
Party E	Party J	Financial Sponsor

November 2021 Process and Deal Execution

- **August 11, 2021:** Party I submits an offer for \$80.00/share
- **September 20, 2021:** KKR and Party B offer \$82.50/share
- **October 5, 2021:** Party C submits an offer for \$82.00/share
- **October 21, 2021:** Party E offers between \$82.00-85.00/share
- **October 23, 2021:** Party B pulls out of their offer with KKR
- **October 23, 2021:** Party C raises offer to \$85.00/share
- **October 27, 2021:** KKR and GIP offer \$82.50/share
- **November 12, 2021:** KKR and GIP raise bid to \$84.00/share
- **November 14, 2021:** Party C raise bid to \$86.00/share
- **November 14, 2021:** KKR and GIP raise bid to \$90.50/share and win the deal

Deal Rationale

Buyers Rational

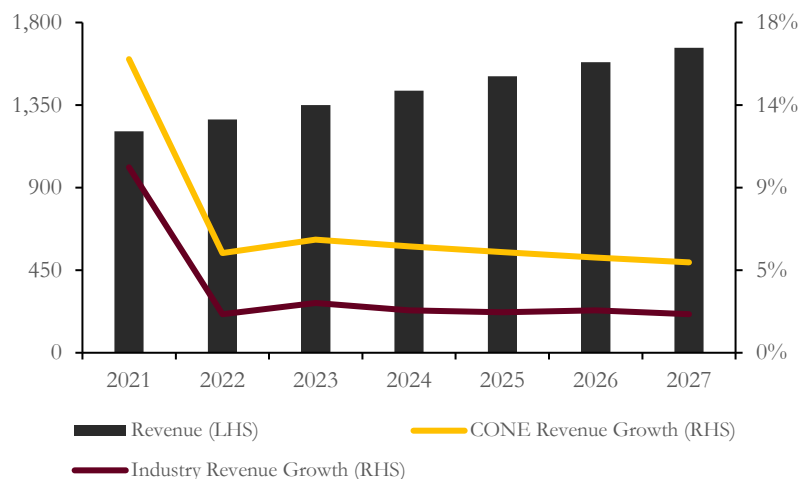
Heightened and Increasing Need for Data Centres



Early Entrant in a High Demand Space

- The COVID-19 pandemic dramatically increased the need and utilization rates of data centers as many of our commonplace activities shifted online
- CONE had a first-mover advantage in developing data centres and managing them more efficiently than individual businesses could on a small scale
- Some key operations carried out at data centre facilities are:
 - Data storage, management and backup recovery
 - Productivity applications, such as email
 - High Volume of e-commerce transactions
 - Big data, machine learning and AI

CONE Outpacing Broader Market



Source(s): Cyberpedia, IBISWorld, Visible Alpha

Key Data Centre Demand Drivers

- **Edge Computing** – The growing need for speed in digital real estate.
 - 40% of visitors will leave a website if it takes >3 seconds to load
- **Hybrid Cloud Architecture:** More companies are choosing to migrate to cloud-based platforms that let them remotely access and backup data
- **Digital Content:** 77% of Americas are going online daily, and 26% are online almost “constantly, consuming content
- **Big Data:** Data storage and manipulation has become an integral part of the operations of most large companies

High Growth Strategy

- Historically, Cyrus One has had a high growth strategy in comparison to other competitors in the data centre REITs
- Namely, Cyrus one has positioned itself in a way to be a more flexible service provider than their peers with scalable services and a modular design for their locations
- Their flexibility with regard to expansion, size and colocations allows them to personally tailor the data needs of each firm from the first day that they sign on all the way through the firm’s growth.
- As a result, in 2021, 96% of new leases were from previous customers, which makes developing new properties and new lease acquisition more efficient.

Strategic Rationale

“Massively Modular” Construction Methods



“Massively Modular” Method...

CyrusOne approaches construction by adopting “Massively Modular” approach

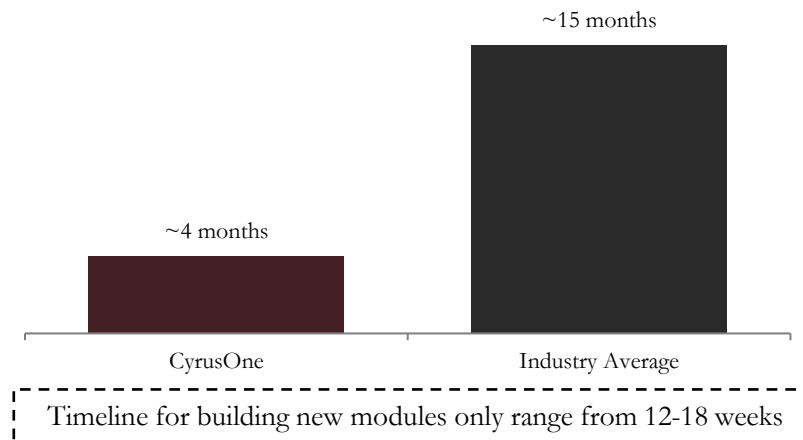


1 Build out an initial “shell”, with building, energy support systems, cooling and electrical infrastructure



2 Based on their tenant’s needs, they build out “modules” of data centers

... Reduces New Data Center Construction Time



CyrusOne Underwriting Approach

CyrusOne

(\$MM)	Build Cost	Year 1	Year 2	Term Value	10+ Year Term
FFO	(\$57.6)	\$8.9	\$8.7	\$81.6	\$107.9
AFFO	(\$57.6)	\$8.3	\$8.5	\$81.6	\$107.9
AFFO H/(L)	-	(\$2.6)	(\$0.2)	-	-
IRR	16.1%				

Competitor

(\$MM)	Build Cost	Year 1	Year 2	Term Value	10+ Year Term
FFO	(\$74.7)	\$8.8	\$8.5	\$80.5	\$88.5
AFFO	(\$74.7)	\$8.3	\$8.1	\$80.5	\$88.5
AFFO H/(L)	-	(\$0.5)	(\$0.4)	-	-
IRR	11.5%				

Source(s): Company Filings, CyrusOne, DataCenter Knowledge, Stack Infrastructure

Strategic Rationale: Why Sell

Buyout Benefits Specific to CyrusOne



Finances their European Expansion

- CyrusOne is focused on growing its data center capacity in Europe to satisfy its customers' growing demand needs;
- Customers rely on CyrusOne's flexibility to scale up on demand. So, they operate a just-in-time growth strategy; can build data halls in 12-14 weeks and data centers in 3-6 months.
 - PE ownership will provide **quick access to cheap capital**, enabling CyrusOne to meet the needs of its customers more quickly and more affordably
 - Since CyrusOne doesn't have to use leverage to expand nor worry about maintaining their capital structure, the buyout will **accelerate their European expansion**

Fosters Long-term Growth

- Objectives to maximize shareholder value have minimized investment in long-term growth
- Share price has experienced major volatility throughout the past 5 years, driven by fluctuating lease signings
 - Signing hyperscale businesses tend to be “lumpy” and the timing of the deals impact quarterly results
 - CyrusOne's focus on organic growth through its customers is often discounted by investors looking for rapid customer acquisitions, resulting in sell-offs
- Private placement will enable management to operate irrespective of market sentiment

Provides Scalability Expertise

- Building new data centers to support customer growth is the largest capital expenditure facing data center companies
 - Competitive advantages derive from the ability to build these centers efficiently
- KKR and GIP have experience working in international markets that CyrusOne does not; will be helpful in Spain
- Sponsors' recent focus on digital infrastructure will provide expertise when scaling operations; CyrusOne has synergistic potential with current portfolio firms

Current Investments in Data Storage

	<p>Undisclosed Amount: Leading colocation and cloud services provider in the US</p>	
	<p>Undisclosed Amount: Largest colocation and cloud solutions provider in Hawaii</p>	
	<p>\$1B Equity Investment: Hyperscale builder of data centers</p>	

Market Reaction (Florian)

Market Reaction

Announcement Followed by Flurry of Lawsuits



Legal Reactions

- The announcement of the transaction came with multiple investigations into whether the management team of CyrusOne met its fiduciary duty regarding the purchase price

SHAREHOLDER NOTICE: Brodsky & Smith Announces an Investigation of CyrusOne Inc. (Nasdaq - CONE)

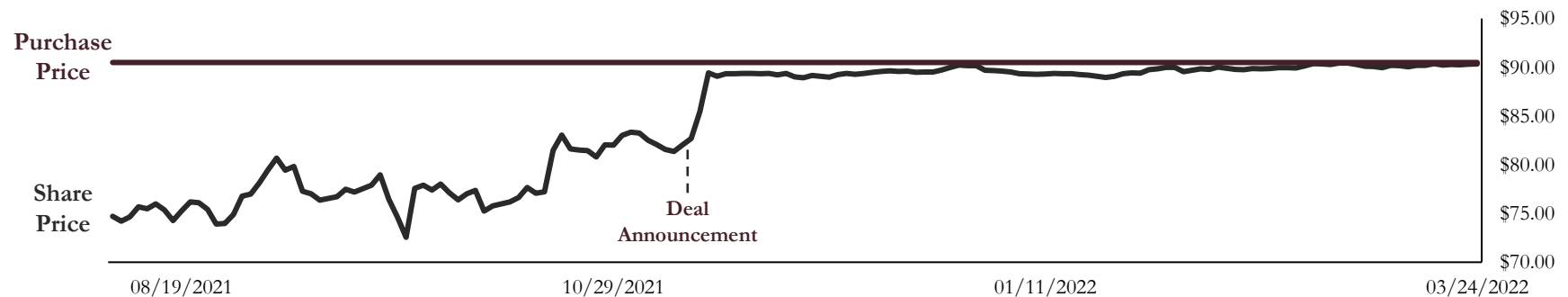
SHAREHOLDER ALERT: WeissLaw LLP Investigates CyrusOne Inc.

CyrusOne Merger Investigation: Halper Sadeh LLP Announces Investigation Into Whether the Sale of CyrusOne Inc. Is Fair to Shareholders; Investors Are Encouraged to Contact the Firm – CONE

Outcome

- While the law firms may have swarmed this deal at its announcement, nothing came out of the investigations and therefore indicates a conclusion that deal terms were fair
- The terms were certainly on the more generous side for shareholders as the bid of \$90.50 was \$4.50 higher than the alternative highest bid of \$86.00 and represented a 8% premium to the 5-day VWAP of \$83.69
- Post announcement, the company was trading at just under the buyout price up-until the deal closed, investor confidence and contentment with the deal terms

Share Price Performance/Reaction



The share price popped up to the purchase price level almost immediately after the transaction was announced, representing a rather positive market sentiment contrary to that of shareholder protection law firms

Digital Infrastructure Investing Trend Analysis

Digital Infrastructure Trends

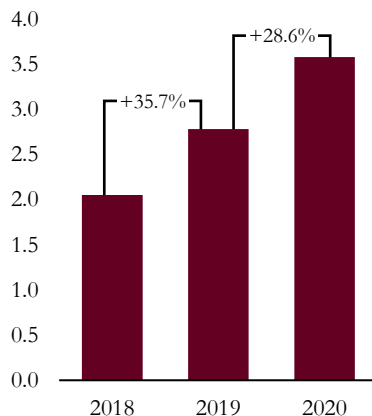
Why are Sponsors Attracted to Digital Infrastructure?

LP's Changing Perceptions on Digital Infrastructure

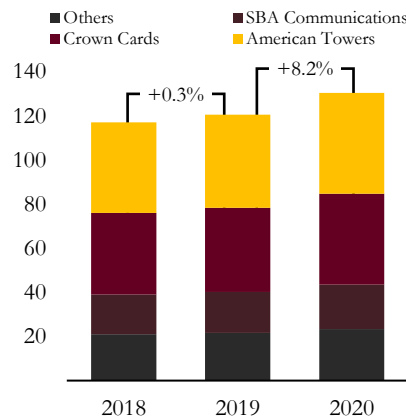
- 8 years ago, digital infrastructure did not exist as an asset class. Now, LPs appetite for the sector is **stronger than ever**
- Thanks to the introduction of 5G technologies and new digitally encrypted networks, it is projected that there will be over \$388B of investment in the space. Key drivers behind the change in perceptions stem from the following elements:
 - Intersection between infrastructure and technology provides unique opportunities to generate alpha
 - Global lockdowns reduced revenue streams from traditional core infrastructure assets, which has motivated investors to diversify their strategies
 - Data consumption surged and is expected to continue

Data Continues to Outpace Macro Tower Growth

Mobile Data Traffic in the U.S.
In Exabytes/Month



of Cellular Tower Operators
In Thousands of Towers

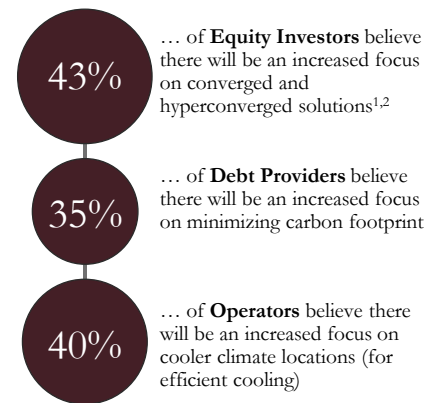


... While Data Centers are Turning Very Attractive

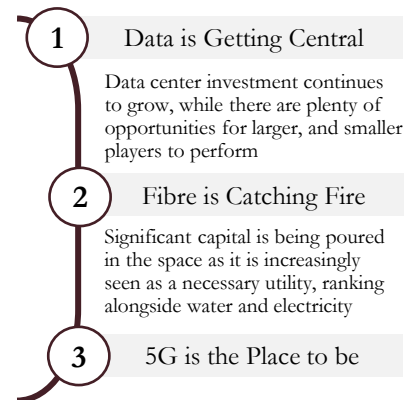
- A key piece of the digital infrastructure ecosystem is data centers, which can host thousands of servers facilitating all types of data storage and processing, from analyzing data from AI algos to facilitating online shopping
 - Data centers charge are located in large warehouse like buildings and charge tenants – often tech firms – for space, power, cooling, security, among other services
- As the pandemic caused a boom in WFH, many businesses moved their operations to the cloud for the first time, which has led to increasing demand for space at data centers
 - This has specifically attracted infrastructure investors in investing in such real assets

Trends in the Space

Thoughts from Stakeholders
(Data Center Trends)



Three Main Trends on Digital Infrastructure



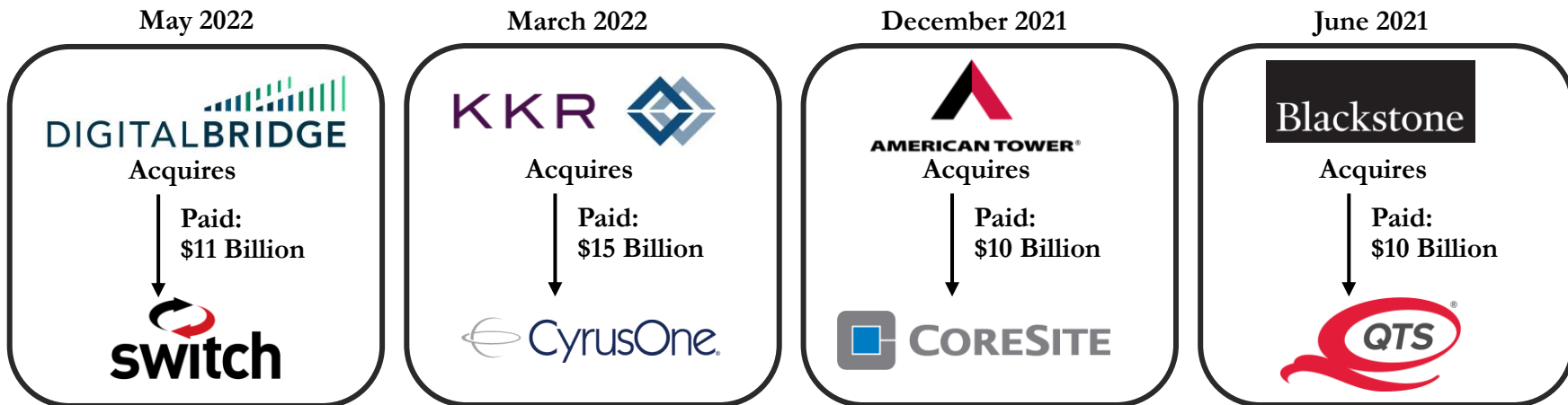
Source(s): Allen & Overy, Baker McKenzie, DLA PIPER, Infrastructure Investor Note(s):

1. Converged & Hyper-Converged solutions are noted to have energy-saving potential
2. Converged Infrastructure: Hardware-based approached to reduce issues and cost. Hyperconverged Infrastructure: Software based approach to converging storage and processes

Sponsor Activity

Recent Deals in the Data Center Space

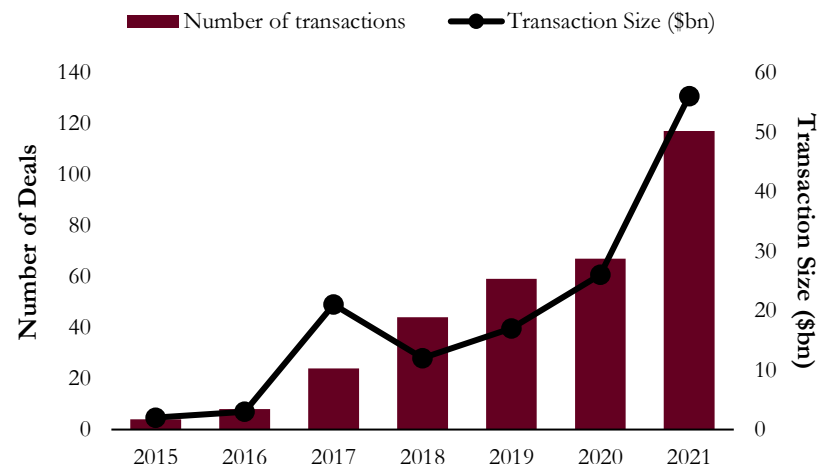
Notable Data Center Acquisitions



Where are we Now and Where are we Headed?

- In 2021, YoY total investment in global data center infrastructure more than doubled to \$59.5B while the number of transactions reached to 177, a 64% YoY increase
 - This strong growth is expected to continue, as H1 of 2022, there were 41 transactions worth \$21.3B – while H1 of 2021 was \$10.6B in total transaction value
- Equity investors involved in data centers are expecting an IRR ranging from 17.0% to 17.6%, which is more than what they thought in 2021 (13.1% to 13.5%)
- Tightening focus on ESG is a rapidly rising topic in the space. This has led to concerns as 35% of developers, 17% of debt providers, and 25% of equity investors have diverted in at least one data center in the past two years

Historical Deal Activity



Sponsor Activity

Recent Deals in the Data Center Space



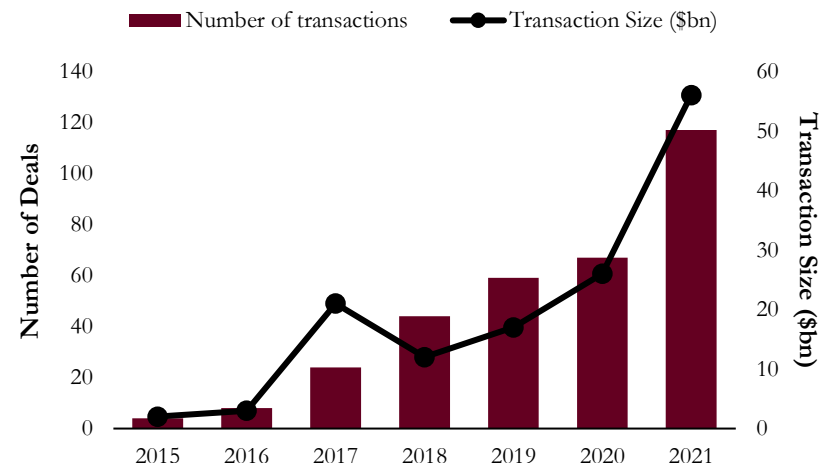
Notable Data Center Acquisitions

These four deals represent the highest value acquisitions the industry has ever seen. While all four companies are in the top 15 ranking of colocation operators¹, and are ranked three through six in the US market

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Historical Deal Activity



Source(s): DLA PIPER, Synergy Research Group

1. Colocation Operators: Provide organizations with data center facilities to house and operate their servers



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