2021 Tech M&A Outlook: Datacenter, hosting and managed services

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Overview

In 2020, the number of datacenter and managed service acquisitions rose to its highest level since 2016, although the $8bn in deal value was lower than any year since 2014. The year saw continued purchases of small datacenters (e.g., single-tenant facilities), network-dense assets and small-scale MSPs, but relatively few large package investments.

Datacenter demand continued to grow in 2020 and we expect that cloud providers, particularly as they launch in new countries, will continue to use leased datacenters. Their suppliers will seek land and small operators to buy in order to enter new markets rapidly. Large packages of assets may change hands, but there are fewer available. Innovations around raising and spending capital (for example, setting up joint ventures or selling stabilized datacenters to long-term investors) will increasingly differentiate successful datacenter operators.

Overall Hosting and Managed Services M&A

Year announced	Deal volume	Deal value*
2020	174	$8.0bn
2019	164	$11.6bn
2018	134	$11.4bn
2017	156	$18.6bn
2016	188	$17.6bn
2015	228	$13.2bn
2014	150	$6.0bn
2013	155	$7.6bn

*Source: 451 Research's M&A KnowledgeBase *Includes all disclosed and estimated deal values.*

Signature Deals From 2020

Acquirer	Target	Deal value	Comments
EQT	EdgeConneX	$2.5bn*	EQT brings additional capital resources to EdgeConneX that the firm plans to use to continue building datacenters around the world.
Stonecourt Capital	365 Data Centers	$1.4bn*	The target has 12 facilities, mostly in secondary US markets, and Stonecourt is expected to invest more to enable the business to build/expand more to benefit from potential 'edge' demand.
Clearlake Capital	Endurance International Group	$1.3bn	Clearlake announced plans to take cloud and hosting provider Endurance private in a deal due to close in early 2021 and intends to help Endurance grow organically and via acquisition.
Equinix	Bell Canada (13 datacenters)	$750m	The acquisition of Bell Canada's datacenter portfolio brings 13 facilities in seven new cities along with a roster of enterprise clients and expansion space in Toronto, vaulting Equinix to a new position as a Canada-wide provider.
DataBank	zColo	$500m*	DataBank tripled its footprint by nabbing 44 zColo datacenters in the US and Europe, including 13 key interconnect locations. This bolsters the buyer's push to obtain critical interconnection sites while supporting its customers' need for geographic diversity.

*Source: 451 Research's M&A KnowledgeBase *451 estimate*

Macro-level drivers: Potential acquirers

Datacenters are increasingly viewed as the 'factories of tomorrow' – where data is exchanged and processed, and from which data is delivered to consumers and businesses around the world. They are allowing more conservative investors to tap into new technology trends – from IoT to edge deployments to AI – while reducing risk by retaining more traditional elements such as land, real estate and physical infrastructure assets.

Interest in the sector has continued to grow as the pandemic has led to people increasingly working, shopping, studying and entertaining themselves at home, activities that tend to boost demand for datacenter space. At the same time, key real estate investment targets such as office space, hotels and shopping malls now look less appealing following the lockdown, making datacenters seem even more like safe-haven assets for many investors.

The result is a new asset class, a building boom with well-funded providers and an increasing number of investors keen to put money into the sector, from active pension and sovereign wealth funds to real estate investment companies. As they become more comfortable with the industry, we are seeing investors that were once seeking short-term options across the market now looking beyond a six-year investment schedule, providing capital for expansion and market growth as well as M&A.

As more investors enter the game, however, the pool of providers available for acquisition has been shrinking. We believe new targets will arise – for example, in secondary markets as companies enact edge strategies and add more localized IT environments. We also will likely continue to see creative approaches by datacenter builders and operators in which they sell to some of these new investors all or part of facilities that they have built to raise capital for expansion.

Data localization laws, as well as questions about Brexit in the UK, continue to influence M&A activity as datacenter operators seek to acquire sites in countries where data must remain 'in residence.' This includes Asian cloud and IT companies, especially China-based giants Alibaba and

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Tencent. Datacenter providers are shopping for network-dense sites in smaller markets as well as large-scale space in the top markets.

On the managed services side, we anticipate continued purchases by cloud enablement firms as they seek to add complementary managed services, vertical market specialization, compliance capabilities, or government contracting eligibility. We also expect to see private equity (PE) investment in companies that have assembled more complete capabilities (similar to Clearlake Capital's pickup of Endurance International) as investors aim to benefit from enterprise cloud uptake by reaching for mature cloud enablement firms.

Additionally, we anticipate continued interest in the sector from large infrastructure funds, with Ascendas, Bain Capital, Chirisa Investments, Digital Bridge, EQT, GI Partners, Harrison Street, Keppel, Mapletree Investments, Macquarie and Stonecourt Capital, among others, on the lookout for new investments. We continue to learn of property investment funds looking to enter the datacenter market, with single-tenant facilities usually the most desirable acquisitions to start.

Several top US datacenter providers have been working to expand internationally. CyrusOne, Digital Realty, Equinix, Iron Mountain, QTS and Vantage have all bought facilities outside the US in recent years, with Digital Realty and Equinix in particular showing an interest in sites in smaller markets such as Greece and Kenya. Switch has set up joint ventures in Italy and Thailand. This leaves CoreSite looking a bit left out as the only public datacenter operator that does not have an international presence.

In Asia, we expect datacenter and cloud players to continue to expand, typically acquiring to enter new markets. Companies like Gaia Smart Cities and IndiQus represent the first crop of market makers hoping to capitalize on business transformation by building their credibility inorganically. Regional telcos such as CITIC Telecom International, PCCW and SingTel also continue to make strategic moves. Top colocation suppliers such as Chindata, GDS, 21Vianet, Shanghai AtHub, Daily Tech, Neo Telemedia, OF IDC and Sinnet may ink deals to enter new markets. This is in part to keep up with cloud growth and resulting datacenter demand from cloud and IT service providers.

Micro-level drivers: Potential targets

Buyers continue to seek network-dense assets and facilities that have ecosystems of customers or partners in place. Eastern Europe, the Middle East and Africa are target areas, along with the usual carrier hotels in North America whose owners do not seem inclined to sell (for example, Allied in Toronto, Markley in Boston, and PhoenixNAP). Typical suitors for these facilities would be 1547, Cologix, Digital Realty, Equinix, Netrality and vXchnge.

In North America, firms that could potentially be interested in offers include Flexential, TierPoint and possibly Cyxtera Technologies. In Europe, several datacenter portfolios could be on the market. GTT is selling its portfolio of facilities and we expect Colt Data Centre Services to release some properties for sale. BT divested its Spanish unit in 2019 and has reportedly been trying to sell its Italian division since early 2019. Telecom Italia has also been trying to sell or spin off its datacenter unit, which makes it one of several Italian asset packages to choose from, as Aruba and Switch SuperNAP could also be for sale at the right price. Other small regional players may also be open to offers, including Volta in London and Safe Host in Switzerland.

Data 4 Group, which has facilities in Italy, France, Luxembourg and – under construction – Spain, is an appealing asset for a fellow wholesale supplier looking to expand or for investors. Other large wholesale providers seeking buyers include NGD in Wales and Infinity SDC, which has sold some datacenters to Zenium and Virtus in recent years. In the Nordics, Digiplex is for sale, with PE firms and large wholesale providers reportedly interested.

In Asia, there are plenty of international providers looking to buy facilities or companies to gain entry into new markets or expand quickly. The challenge is finding suitable targets. Many of Asia's more successful providers are owned by conglomerates, sometimes with government ties, that seem reluctant to sell their datacenter assets. However, we may see some assets change hands if the price and the timing are right. There are some local players that may offload their assets to larger fish. These include GZ IDC, Phicomm and SDS (Shuxun). In India, CtrlS, Web Werks (rumored to be in talks with Iron Mountain) and ESDS are potential targets. In Australia, Vocus continues to explore selling its datacenter assets. Telstra is also still entertaining an auction of some of its datacenter assets.

On the managed services side, we are likely to see continued M&A activity around midsized providers of cloud-enabled managed services. The value of the one-stop shop makes it likely that more vendors will combine to produce greater scale and services breadth. CDNs that provide innovative technology are also appealing, with Fastly, for example, rumored to be a target of Cisco. Cisco and other hardware vendors are seeking to develop cloud-delivered services, as was also the case with F5's pickup of Volterra in December. Multi-CDN and peer-to-peer CDN technologies are attractive as well to larger, more traditional CDNs and telcos, so startups like Peer5 could be scooped up this year.

IPOs

After a lack of datacenter IPOs in 2019, there were several in 2020, which may inspire others this year. The Asia-Pacific region was of particular interest and will likely continue to be in 2021.

- China-based datacenter builder **ChinData** launched on the Nasdaq in September 2020, raising $540m. The company builds datacenters mainly for ByteDance (Tik Tok's parent) and is backed by Bain Capital, which merged ChinData with Bridge Data Centres in 2019.
- **GDS**, which also specializes in building datacenters in China, raised $1.7bn in October through a secondary listing on the Hong Kong Stock Exchange. The firm originally went public on the Nasdaq in 2016.
- In Australia, datacenter and cloud provider **DC Two** launched on the Australian Stock Exchange in November, raising AUS$5.5m (about $4.3m).
- US-based hosting, cloud and colocation provider **Rackspace** also relaunched itself as a public company with an IPO in August that raised $700m. It had been taken private in 2016 by Apollo Global Management.
- Right at the end of 2019/early 2020, **Vertiv** was spun off of Emerson Electric and went public via a reverse merger with a special-purpose acquisition company that trades on the NYSE.
- **Global Switch** briefly discussed attempting an IPO on the Hong Kong Stock Exchange for the second year in a row but did not carry through, and the company's Chinese investors are rumored to be shopping it to private buyers instead.
- In 2021, the first datacenter IPO has already happened, with **PT DCI** launching in Indonesia in early January. The company is Equinix's partner in the Indonesian market.
- **Telecom Italia** has said that it plans to spin off its datacenter assets, either to a buyer or a separate publicly traded company, but we have yet to see concrete details.