

## Equinix (EQIX)

### Initiation Report: Core Telecom Holding, 95% Recurring Revenue, Moderate Leverage, Limited Total Return Opportunity

- **We initiate coverage of Equinix with a Marketweight weighting.** — We initiate with a Marketweight weighting on Equinix credit and believe it should represent a core position in telecom portfolios. EQIX has \$2,250 million bonds issued in three tranches, has 95% recurring revenue, continues to enjoy secular growth, is moderately leveraged at 3.7x total and 3.1x net, and its credit is supported by \$12 billion market equity.
- **We initiate coverage of EQIX senior notes with a Neutral rating.** — EQIX bonds trade near Citi's Telecom & Cable index and we see no near-term positive or negative catalyst to drive material price movement. On a relative value basis, we believe EQIX bonds could continue to trade tighter than its peers. The company's 7% senior notes due 2021 are first callable July 15, 2016, and seem to us a potential refinancing candidate in late 2015.
- **Growth Industry Investment** — EQIX sales have grown at a double-digit pace since 2006 and consensus expects that to continue through 2015. Our model indicates leverage could drop to 3.1x in 2015 from 3.7x as of 2Q 2014.
- **High Capex Leaves Little Free Cash Flow** — EQIX remains in investment mode and spends over 22% of sales on capex. The company has historically funded growth with debt, but recently has shifted to modest free cash flow generation. On an LTM basis EQIX generated \$2 million free cash flow.
- **REIT Uncertainty** — EQIX plans to convert to a REIT on January 1, 2015, but has not received IRS permission to do so. EQIX applied for REIT status about three years ago. From a credit perspective, REIT conversion could require EQIX to distribute most cash generation which could limit debt retirement.

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**See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.**

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# Contents

<b>Investment Considerations</b>	<b>3</b>
Highlights	3
Risks	3
Events	3
<b>Relative Value and Recommendations</b>	<b>4</b>
Comparables	4
Relative Value versus Comparables	4
Relative Value versus Telecom & Cable Index	4
Recommendations	4
<b>Capital Structure and Covenants</b>	<b>6</b>
Capital Structure & Liquidity	6
Bank Loan Covenant Summary	7
Bond Covenant Summary	7
<b>Financial Summary and Forecasts</b>	<b>8</b>
Financial Summary	8
2014 & 2015 Forecasts	8
3Q 2014 Forecasts	9
<b>REIT Considerations</b>	<b>10</b>
<b>Company Overview</b>	<b>11</b>
Company Description	11
Historical Trends	12
Revenue Summary	12
Segment Summary: Colocation	13
Segment Summary: Interconnection	13
Segment Summary: Managed IT infrastructure	13
Segment Summary: Non-Recurring	14
<b>Appendix A-1</b>	<b>15</b>

# Investment Considerations

## Highlights

**Secular Growth Tailwind.** Internet, video, cloud and social networking traffic drive rising bandwidth & data center demand. We expect this trend to continue.

**Diverse Customer Base with 95% Recurring Revenue.** EQIX connects over 4,600 companies (over 6,000 customers) to their customers and partners through over 100 data centers in 15 countries throughout the Americas, Europe, Middle East, Africa, and Asia-Pacific. EQIX connects to over 900 network service providers. Approximately 95% of EQIX revenue is recurring.

**Moderate Leverage, Ample Asset Coverage.** EQIX maintains moderate leverage at 3.7x total and 3.1x net. The company's \$12 billion equity value provides over 3.5x asset coverage for creditors.

## Risks

**Margin Pressure.** EQIX has established itself as the interconnection leader with consistently high margins. Competition or customers could pressure margins.

**Modest Free Cash Flow Generation.** EQIX's sales have quadrupled since 2007 owing to strong demand, but also aggressive capital investment. On an LTM basis through 2Q 2014, EQIX generated \$2 million free cash flow after spending \$640 million on capex. EQIX demonstrated it could generate free cash flow in 2009 when it reduced capex and still continued to grow.

## Events

**ALOG Acquisition.** EQIX acquired the 47% of ALOG Data Centers for \$225 million on July 24. EQIX acquired the 53% of ALOG in early 2011. ALOG is a Brazilian operator with 1,500 customers, four data centers and about \$100 million in revenue. EQIX paid about \$60 million in the original transaction.

**REIT Conversion.** EQIX plans to convert to a REIT on January 1, 2015, but requires IRS approval which has been slow in coming. See our REIT discussion for more details.

## Relative Value and Recommendations

Figure 1. Equinix Relative Value

Equinix (EQIX)				Amt	Current Prices				Media	BOND less	
Cpn (%)	Description	Rating	Maturity	Moody's / S&P	Out (\$mm)	Bid	YTW (%)	STW (bp)	YTW Date	Index	Index (bp)
Secured Debt											
L+200bp	1st Lien TL A		28 June 2017	#N/A N/A(S) / #N/A N/A(S)	120	98.38	3.34%				
Senior Debt											
4.875	Sr Nts	Neutral	1 April 2020	Ba3(S) / BB(S)	500	99.88	4.90%	289	1 April 2019	5.22%	(32)
7.000	Sr Nts	Neutral	15 July 2021	Ba3(S) / BB(S)	750	107.50	4.51%	382	15 July 2016	5.22%	(71)
5.375	Sr Nts	Neutral	1 April 2023	Ba3(S) / BB(S)	1,000	100.38	5.31%	312	1 April 2021	5.22%	9
Subordinated Debt											
3.000	Sub Cvts		15 October 2014	#N/A N/A(S) / B+(S)	179	197.50	-881.14%	#N/A N/A	15 October 2014	5.22%	-88636
4.750	Sub Cvts		15 June 2016	#N/A N/A(S) / B+(S)	158	262.11	-46.16%	-4682	15 June 2016	5.22%	-5138
DUPONT FABROS TECHNOLOGY INC (DFT)											
L+150bp	Gtd Sr TL B	Unrated	21 July 2019	#N/A N/A(S) / #N/A N/A(S)	250	97.50	2.28%				
5.875	Sr Nts	Unrated	15 September 2021	Ba1(S) / BB(S)	600	102.88	5.21%	333	15 September 2019	5.22%	(1)
CyrusOne Inc (CONE)											
6.375	Sr Nts	Unrated	15 November 2022	B2 / B+	525	105.25	5.36%	325	15 November 2020	5.22%	14

Source: Citi Research

### Comparables

EQIX has two leveraged peers: DUPONT FABROS (DFT) and CyrusOne (CONE). EQIX is the largest company based on sales, EBITDA and market equity value, but not the highest rated by ratings agencies. LTM sales were as follows: \$2,293 million sales for EQIX; \$400 million for DFT; and \$299 for CONE. LTM EBITDA was as follows: \$1,051 million for EQIX; \$253 for DFT; and \$142 for CONE. Market equity values were as follows: \$11.6 billion for EQIX; \$1.8 billion for DFT; and \$1.0 billion for CONE. We are a bit surprised that EQIX senior notes are rated lower than DFT's senior notes owing to EQIX's size advantage and similar leverage profiles.

### Relative Value versus Comparables

EQIX 5.375% senior notes due 2023 trade near DFT's 5.875% senior notes due 2021 and CONE's 6.375% senior notes due 2022. The EQIX bonds YTW date is 2021 versus 2019 for DFT and 2020 for CONE. On a spread basis, EQIX trade 20-25bp tighter than its peers.

### Relative Value versus Telecom & Cable Index

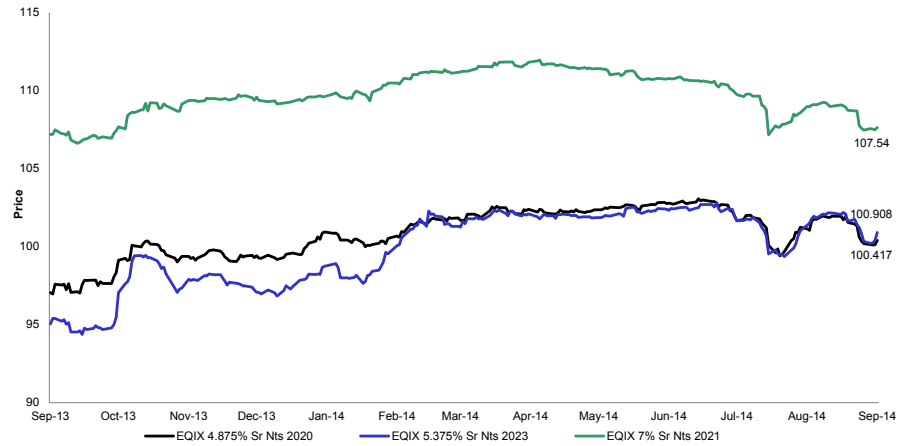
EQIX bonds trade 70bp tight to 10bp wide of Citi's telecom & cable index, while DFT trades at the index and CONE trades about 15bp wide of the index.

### Recommendations

We initiate with a Neutral rating on the company's senior notes. Our Neutral rating considers anticipated growth, moderate leverage, modest leverage improvement, REIT uncertainty, potential debt issuance, relative value versus its peers and relative value to Citi's Telecom & Cable index.

We would expect EQIX bonds to outperform the index in a weak market owing to 95% recurring revenue, strong asset coverage at over 3x, and reasonable bond coupons. We do not see near-term catalysts which point to incremental total return opportunities at current levels.

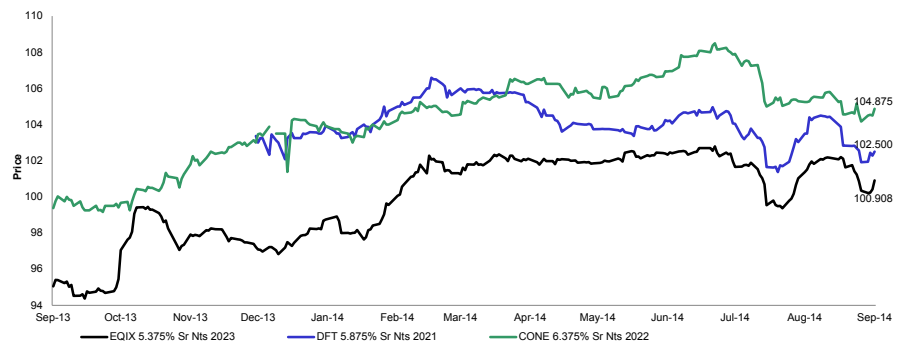
Figure 2. EQIX Senior Notes Price Movement



Source: Citi Research

EQIX bonds sold off in early August along with the market and have yet to fully recover.

Figure 3. EQIX Senior Notes Price Movement versus CONE and DFT



Source: Citi Research

EQIX 5.375% senior notes due 2023 improved in price versus its peers over the past year. We believe this resulted from the company's decision to allow its convertibles to "convert into equity" instead of seeking debt refinancing.

# Capital Structure and Covenants

## Capital Structure & Liquidity

Figure 4. Equinix Capital Structure & Liquidity

	6/30/14 2Q14	Gross Leverage	Net Leverage	Bid		YTW Date	Rating
				Price	YTW		
<b>Cash &amp; Marketable Securities</b>	<b>616</b>						
\$200M T/L A L+200bp due 6/28/2017	120			98.375	3.34%		
Capital Leases	1,055						
<b>Secured Debt</b>	<b>1,175</b>	<b>1.1x</b>	<b>0.5x</b>				
4.875% Sr. Notes due 4/1/2020	500			99.875	4.90%	1-Apr-2019	Neutral
7% Sr. Notes due 7/15/2021	750			107.500	4.51%	15-Jul-2016	Neutral
5.375% Sr. Notes due 4/1/2023	1,000			100.375	5.31%	1-Apr-2021	Neutral
3.00% Convert Sub Notes due 10/15/2014	179			197.500	-881.14%	15-Oct-2014	
4.75% Convert Sub Notes due 6/15/2016	158			262.109	-46.16%	15-Jun-2016	
Convertible Fair Value Adj.	18						
Other	101						
<b>Total Debt</b>	<b>3,881</b>	<b>3.7x</b>	<b>3.1x</b>				
Market Equity Value	<b>11,342</b>		<b>10.8x</b>				
less: Cash & Cash Equivalents	<b>(616)</b>						
<b>Enterprise Value</b>	<b>14,608</b>		<b>13.9x</b>				
<b>Liquidity</b>							
Cash & Marketable Securities	616						
Total Revolver Availability	514						
<b>Total</b>	<b>1,129</b>						

Source: Company Reports and Citi Research Estimates

EQIX capital structure benefits from over \$11 billion market equity value which provides over 3.5x asset coverage for the company's \$4 billion debt.

About 30% of EQIX's \$4 billion debt is secured. EQIX employs over \$1 billion in capital leases & mortgages and a \$120 million term loan A. The unsecured debt is mostly senior notes, but also includes about \$325 million convertible notes. These convertible notes are "deep in the money" and could into convert to equity at maturity in October and in 2016. Management expects the remaining \$179 million 3% convertibles to convert into equity prior to their October 15, 2014 maturity.

EQIX has no callable bonds, although the \$120 million bank debt is callable at par. The company's next callable bond is the \$750 million 7% senior notes which are callable July 15, 2016 at 103.5. We believe management could consider an early tender for these bonds in 2H 2015. We think this could allow the company to extend the bond's maturity and lock in a more favorable rate, while lessening the upfront tender premium.

### Bank Loan Covenant Summary

- **Ranking:** First lien, senior secured
- **Guarantees & Security:** guaranteed by domestic subsidiaries, secured by accounts receivable and equity interests in certain subsidiaries
- **Revolver:** \$550 million revolver due June 28, 2017
- **Term Loan:** \$200 million due June 28, 2017
- **Term Loan A Amortization:** 5% quarterly, \$10 million
- **Applicable Margin:** When senior debt leverage > 3.0x: 160bp RC & 200bp TL; when senior debt leverage 2.50 – 3.00x 137.5bp RC & 175bp TL.
- **Covenants:** 1) Net senior secured leverage ratio less than 3.50x; 2) fixed charge ratio minimum is 1.50x
- **Incremental Revolver Capacity:** \$250 million for the revolver (\$550 million now, so \$800 million total).
- **Bank Facility Size Limit:** \$750 million outstanding limit per the bonds indenture.

### Bond Covenant Summary

- **Ranking:** Senior Unsecured
- **Guarantors:** None. However, if any existing or future domestic restricted subsidiaries guarantee any public debt, then the notes shall receive the same guarantee.
- **Debt Incurrence:** 1) Maintain at least 2.0x adjusted EBITDA divided by the sum of interest plus preferred dividends. 2) Less than \$200 million sales and leaseback transactions. Based on 2Q 2014 LTM EBITDA we believe EQIX could incur about \$7 billion in total debt which implies about \$3 billion incremental debt capacity.
- **Restricted Payments:** Beginning January 1, 2013 the builder basket starts at \$225 million plus EBITDA less 1.4x interest expense plus 100% equity issuance. Our model shows the restricted payment basket at 2Q 2014 was about \$900 million. Based on 2Q 2014 results, EQIX increased its RP basket by about \$180 million (275 less 1.4 times 67).

# Financial Summary and Forecasts

## Financial Summary

Figure 5. Equinix Financial Summary & Forecasts

	Fiscal Year End			Quarterly				LTM	Fiscal Year End	
	12/31/2011 2011A	12/31/2012 2012A	12/31/2013 2013A	3/31/2014 1Q14	6/30/2014 2Q14	9/30/2014 E-3Q14	12/31/2014 E-4Q14	6/30/2014 LTM	12/31/2014 2014E	12/31/2015 2015E
<b>Operating Statistics</b>										
Revenue	\$1,607	\$1,914	\$2,153	\$580	\$605	\$616	\$632	\$2,293	\$2,434	\$2,686
Sales Growth Y/Y, %	31.7%	19.1%	12.5%	11.7%	15.1%	13.5%	12.0%	12.4%	13.1%	10.4%
Gross Profit	\$739	\$954	\$1,087	\$293	\$312	\$317	\$329	\$1,174	\$1,251	\$1,397
Gross Margin, %	46.0%	49.8%	50.5%	50.4%	51.6%	51.5%	52.0%	51.2%	51.4%	52.0%
EBITDA	\$738	\$887	\$1,003	\$260	\$275	\$282	\$286	\$1,051	\$1,104	\$1,177
EBITDA Margin, %	46.0%	46.3%	46.6%	44.9%	45.5%	45.7%	45.3%	45.8%	45.3%	43.8%
Capital Expenditures	\$724	\$765	\$625	\$106	\$160	\$150	\$150	\$640	\$566	\$600
Capex / sales, %	42.5%	39.9%	29.0%	18.3%	26.4%	24.3%	23.7%	27.9%	23.2%	22.3%
Operating Cash Flow	\$186	\$632	\$605	\$172	\$97	\$285	\$238	\$642	\$792	\$983
Operating Cash Flow less Capex	(\$497)	(\$132)	\$0	\$66	(\$63)	\$135	\$88	\$2	\$226	\$383
Dividends	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$368
Stock Buybacks	\$87	\$13	\$49	\$47	\$208	\$0	\$0	\$304	\$255	\$180
Acquisitions	\$208	\$309	\$0	\$0	\$0	\$225	\$0	\$0	\$225	\$0
Cash & Marketable Securities	1,076	419	632	818	616	516	594	616	594	388
Secured Debt	658	741	1,071	1,185	1,175	1,165	1,155	1,175	1,155	1,115
Total Debt	3,178	3,072	4,204	4,321	3,881	3,875	3,689	3,881	3,689	3,663
Net Debt	2,101	2,653	3,572	3,503	3,266	3,359	3,096	3,266	3,096	3,275
<b>Credit Statistics</b>										
Secured Debt / EBITDA	0.9x	0.8x	1.1x	LTM 1.2x	LTM 1.1x	LTM 1.1x	LTM 1.0x	1.1x	1.0x	0.9x
Total Debt / EBITDA	4.3x	3.5x	4.2x	4.2x	3.7x	3.6x	3.3x	3.7x	3.3x	3.1x
Net Debt / EBITDA	2.8x	3.0x	3.6x	3.4x	3.1x	3.1x	2.8x	3.1x	2.8x	2.8x

Source: Company Reports and Citi Research Estimates

EQIX has grown rapidly including throughout the Great Recession. We forecast continued growth for EQIX owing to growth in data center outsourcing, strong market position and growth capital expenditures. We note the company has historically spent more on capex than it generated from operating cash flow, but recently has begun to generate modest free cash flow.

EQIX plans to convert to a REIT on January 1, 2015. Our model reflects this change and includes a \$180 million one-time shareholder distribution. In addition, REITs are required to distribute at least 90% of pre-tax income. EQIX has not declared a dividend policy, so we elected to distribute 90% of EBIT as a dividend. Please see our REIT discussion for more information.

## 2014 & 2015 Forecasts

In 2014, we forecast \$2,434 million sales; \$1,051 million EBITDA; 3.7x leverage and 3.1x net leverage.

In 2015, we forecast \$2,686 million sales; \$1,177 million EBITDA; 3.1x leverage and 2.8x net leverage. In 2015 our model projects \$383 million free cash flow and \$370 million dividends. Based on the company's current equity market value and our \$370 million annual dividend, EQIX's stock could have a 3% dividend yield. We believe our model is conservative and therefore could overstate the dividend.



### 3Q 2014 Forecasts

Our \$616 million sales forecast is slightly below consensus \$617 million. We project 12% growth from collocation and 14% growth from interconnection.

Figure 6. Equinix 3Q Revenue Forecasts

(\$ in millions)		9/30/2013 3Q13	6/30/2014 2Q14	9/30/2014 E-3Q14	Change	
					Y/Y	Q/Q
Revenue		\$543	\$605	<b>\$616</b>	\$73	\$11
	Change				13.5%	1.9%
Collocation		\$412	\$453	<b>\$461</b>	\$50	\$8
	Change				12.0%	1.9%
Interconnection		\$81	\$91	<b>\$93</b>	\$12	\$2
	Change				14.5%	1.9%
Managed Infrastructure		\$26	\$28	<b>\$28</b>	\$2	\$1
	Change				9.0%	1.9%
Rental		\$1	\$3	<b>\$3</b>	\$2	\$0
	Change				352.0%	1.9%
Non-recurring		\$24	\$31	<b>\$32</b>	\$8	\$1
	Change				31.8%	1.9%

Source: Company Reports and Citi Research Estimates

Our \$282 million EBITDA forecast is in line with consensus. We project modest sequential margin improvement owing to lower operating expenses.

Figure 7. Equinix 3Q EBITDA Forecasts

(\$ in millions)		9/30/2013 3Q13	6/30/2014 2Q14	9/30/2014 E-3Q14	Change	
					Y/Y	Q/Q
Revenue		\$543	\$605	<b>\$616</b>	\$73	\$11
	Change				13.5%	1.9%
Adjusted EBITDA		\$252	\$275	<b>\$282</b>	\$30	\$6
	Change				11.8%	2.3%
EBITDA Margin, %		46.4%	45.5%	<b>45.7%</b>	-68 bp	20 bp
	Change				-1.5%	0.4%
Gross Profit		\$274	\$312	<b>\$317</b>	\$43	\$5
	Change				15.8%	1.6%
Gross Margin, %		50.5%	51.6%	<b>51.5%</b>	102 bp	-11 bp
	Change				2.0%	-0.2%
Sales & Marketing		\$62	\$75	<b>\$72</b>	\$10	(\$3)
	Change				16.7%	-4.4%
Sales & Marketing, %		11.3%	12.4%	<b>11.7%</b>	32 bp	-76 bp
	Change				2.9%	-6.2%
General & Administrative		\$97	\$112	<b>\$110</b>	\$13	(\$2)
	Change				13.5%	-1.5%
G&A, %		17.8%	18.5%	<b>17.8%</b>	0 bp	-62 bp
Stock-based Compensation		\$27	\$34	<b>\$30</b>	3	(4)
	Change				10.0%	-11.3%
D&A		\$109	\$116	<b>\$116</b>	7	0
	Change				6.6%	0.0%

Source: Company Reports and Citi Research Estimates

## REIT Considerations

**REIT Implications for Credit Investors.** REITs are required distribute the majority of their income as dividends to their investors. This limits cash flow available for debt reduction. REITs typically have long contract lives with relatively predictable revenue and income streams.

**REIT Basics.** Real Estate Investment Trusts own and operate real estate or real estate-related assets. REITs provide a way for investors to earn a share of income produced from the assets. To qualify as a REIT four key tests apply including: 1) a REIT must distribute at least 90% of income before taxes; 2) a REIT must invest at least 75% of assets in “real estate”; 3) a REIT must derive at least 75% of its gross income from “real estate related sources”; and 4) REITs do not pay taxes on “REIT” income.

**REIT Key Benefit - Taxes.** REITs provide tax efficiency, since the REIT does not pay taxes on earned income, only the investor does. In a traditional corporation, the corporation pays taxes, then the investor pay taxes on dividends.

**REIT Timing Uncertain.** In September 2012, EQIX announced plans to pursue conversion to a REIT. The company has begun to implement the REIT conversion, and expects to make a tax election for 2015. However, if EQIX is unable to convert to a REIT on January 1, 2015, the next possible conversion date would be January 1, 2016.

**REIT Conversion Requires IRS Ruling.** EQIX was informed that the IRS resumed work on its private letter ruling (PLR) in November 2013. An IRS PLR would allow EQIX to convert to a REIT.

**REIT Conversion Costs.** EQIX estimates \$75-85 million REIT conversion costs and had incurred \$63 million through 2Q 2014. EQIX expects to pay \$145-180 million cash taxes in 2014 including REIT conversion costs.

**REIT Special Distribution.** Corporations converting to a REIT must make a “special distribution”. EQIX estimates \$700 – 1,100 million special distribution split 20% cash and 80% stock. ***This implies \$140 – 220 million cash distribution.***

**REIT On-Going Distributions.** REITs are required to distribute at least 90% of income before taxes. Based on a REIT conversion in 2015, we estimate about \$370 million distribution.

**REIT Incremental Expenses.** EQIX expects to pay \$5 -10 million incremental expenses to fund annual compliance costs.

# Company Overview

## Company Description

Equinix is a global provider of data center and related services to global enterprises, financial services companies and content and network service providers. The Company operates over 100 data centers in and around high network demand locations in 32 markets in 15 countries. Equinix has a strong portfolio of clients including major global companies that utilize its data centers for colocation, interconnection and exchange and outsourced IT infrastructure services. These customers value Equinix's data center network for the high reliability, low latency, scalability, power-efficiency and network-neutral nature of its offerings. Equinix also maintains a global support staff that is available round the clock all year.

Equinix competes with other neutral colocation providers and traditional colocation providers, including telecom companies, carriers, Internet service providers and webhosting facilities. Several of its competitors have significantly greater financial, technical, marketing resources especially for managed services, bandwidth services and security services. This increased competition has resulted in moderate pricing pressure, especially in metropolitan markets.

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### Figure 8. Equinix Significant Customers

Telcos	AT&T, British Telecom, Comcast, Level 3, NTT, SingTel, Syniverse, Verizon Business
Cloud and IT Services	Accenture, Amazon Web Services, Box.net, Carpathia, Microsoft, NetApp, Salesforce.com, Cisco WebEx
Content Providers	eBay, DirectTV, Facebook, Hulu, Priceline, Sony, Yahoo, Zynga
Enterprise	Bechtel, Booz Allen, Deloitte, Gap, Ingram Micro, Katten Muchin, McGraw-Hill
Financial	ACTIV, Bloomberg, CBOE, DirectEdge, NASDAQ, NYSE Technologies, JP Morgan, Thomson Reuters

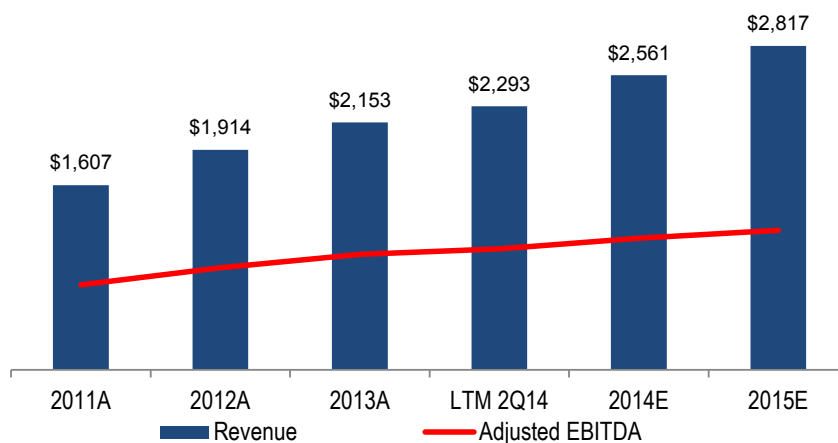
Source: Company Reports and Citi Research Estimates

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As of June 2014, Equinix's customer count increased 8% year-over-year to 6,093 from 5,647 primarily driven by organic growth. No single customer accounted for 10% or more of our revenues. Equinix's 50 largest customers account for approximately 30-35% of its recurring revenues.

## Historical Trends

Figure 9. Revenue & EBITDA Trends

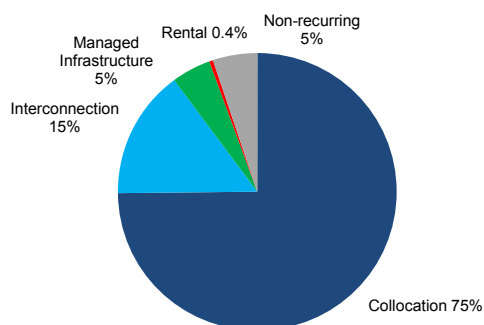


Source: Company Reports and Citi Research Estimates

Equinix benefits from high growth of consumer Internet traffic driven by bandwidth-intensive services including video, VoIP, and other data-rich media and increased penetration of high bandwidth Ethernet and Wireless services. On the Enterprise side, Equinix's ability to provide low latency and highly reliable networks has allowed it to benefit from the prevalence of Software-as-a-Service (SaaS) business and related adoption of cloud computing technology services. EQIX also services several financial services clients who are experiencing growth in data traffic due to increased electronic trading. Housing big clients also accelerates growth as these customers rely on immediate physical colocation with their strategic partners and customers and are thus incented to choose the same provider.

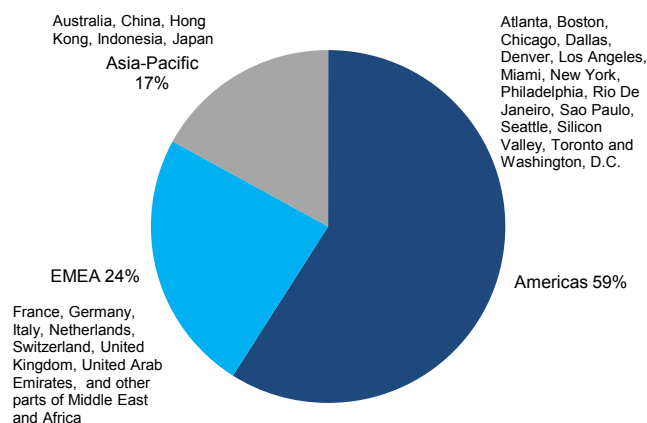
## Revenue Summary

Figure 10. Revenue by Segment



Source: Company Reports and Citi Research Estimates

Figure 11. Revenue by Geography



Source: Company Reports and Citi Research Estimates

Company's revenue is primarily comprised of colocation (75%) followed by Interconnection revenues of 15% during LTM June 2014. Interconnection revenue has grown at a slightly higher rate compared to Colocation and contributed to 15% of LTM revenue compared to 12% in 1Q 2011.

### Segment Summary: Colocation

Equinix offers equipment, space and bandwidth for rent at over 100 data centers in 32 markets data centers. Overall customer contract length varies from one to three years. This drives the high component of recurring revenues at EQIX (over 90%). All offerings are priced with an initial installation fee and an ongoing recurring monthly charge.

Cabinets: Equinix offers customers shared, private and customized cages to host their networking, server and storage equipment. Additional space is easily made available as customer operations scale up.

Power: Power per cabinet is an important factor in choosing a colocation provider given the exponential growth in power consumption. Equinix partially mitigates this trend by negotiating power consumption limitations with certain high power demand customers. Equinix has also begun building data centers that are more capable of handling these exponentially rising power and cooling but remain limited by availability of power which could negatively impact available utilization capacity of a IBX data center.

IBXFlex: Certain customers in close proximity to Equinix's data centers can also chose to deploy mission-critical operations personnel and equipment on-site to ensure quicker issue resolution compared to traditional colocation and to secure a disaster recovery point.

### Segment Summary: Interconnection

Interconnection refers to linking of equipment to ensure traffic exchange between customers on a one-to-one basis with direct cross connects or one-to-many through Equinix Exchange solutions. Currently EQIX offers customers to connect directly with another data center customer within the same location or at another EQIX data center. Equinix also provides its customers with the option to contract with carriers for internet services through the company thus consolidating expenses to a single bill and a single point of support.

Ethernet Carrier Ethernet Exchange. Private access to cloud systems is gaining wide acceptance given the performance bottlenecks and security challenges of public internet. Equinix offers private access through an Ethernet-based cloud exchange in 17 markets to over 50 cloud service providers, including AWS, Blue Box, Datapipe, GoGrid, IBM SoftLayer, Lucera, and Microsoft Azure.

### Segment Summary: Managed IT infrastructure

Equinix Managed infrastructure services comprises professional services and a higher value add "Smart Hands Service". Professional Services staff is available round the clock through the year to assist customers with installations and cabling. Smart Hands Services offers infrastructure management services including equipment rebooting and power cycling, card swapping and performing emergency equipment replacement, thus reducing the need for onsite staff.

### **Segment Summary: Non-Recurring**

Non-recurring revenues contribute to approximately 10% of overall EQIX revenue and are primarily driven by of installation services related to an initial deployment and professional services.

# Appendix A-1

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