

REIT Digital Realty To Buy Telx In \$1.89B Deal

By **Matthew Perlman**

Law360, New York (July 14, 2015, 2:43 PM ET) -- Digital Realty Trust Inc., a San Francisco-based real estate investment trust that provides data center and colocation services, said Tuesday it has agreed to buy private equity-backed data center and infrastructure company Telx Group Inc., based in New York, in a \$1.886 billion cash deal led by Latham & Watkins LLP.

The company plans to finance the purchase with a \$1.85 billion unsecured bridge facility. Digital Realty also said it would offer 10.5 million shares of common stock through a forward sales agreement, which also includes an option for the underwriters to purchase an additional 1.575 million shares to cover overallotments.

The deal, which was rumored last month, is expected to be complete later this year.

Backed by ABRY Partners and Berkshire Partners, Telx manages 1.3 million square feet of data center space in 20 facilities in the U.S. It also operates an interconnection platform that allows for low-latency communications between Internet service providers and tenant companies. More than half of its facilities are already leased from Digital Realty, which will allow for a seamless integration and gives Digital Realty customers access to Telx's services, according to CEO A. William Stein.

"This transformative transaction is consistent with our strategy of sourcing strategic and complementary assets to strengthen and diversify Digital Realty's data center portfolio and expand our product mix and presence in the attractive colocation and interconnection space," Stein said in a statement.

Telx CEO Chris Downie said the combination is a good fit and will benefit customers of both companies.

"We look forward to working with the Digital Realty team to extend a broader, enhanced data center solution to our collective customers," Downie said in a statement. "The combination of Telx's colocation and interconnection capabilities with Digital Realty's expansive wholesale platform provides greater flexibility and optionality for our customers and creates a global solutions provider covering wholesale customer applications and smaller performance-oriented deployments in select high-growth urban submarkets across the U.S."

Digital Realty has a portfolio of 130 properties in the U.S., Europe, Asia and Australia, which are located in major cities where corporate data center and technology customers are concentrated. The properties

have a total of 24.6 million rentable square feet of space and generated \$1.6 billion in revenue with a net income of \$203.4 million last year, according to a prospectus filed with the U.S. Securities and Exchange Commission.

At the end of March, Telx had a customer base of 1,250 companies and was providing 52,000 interconnections, which create direct physical links between two data center tenants or a tenant and a service provider. The company generated \$308.7 million in revenue last year, with a net loss of \$33.3 million, according to Digital Realty's filings.

The company sold a medical center in Philadelphia earlier this year in a deal with health care REIT HPC Inc. worth \$160.75 million. Last year, it formed a \$187.6 million joint venture with Griffin Capital Essential Asset REIT Inc.

Digital Realty is currently embroiled in a \$1 million employment discrimination lawsuit with a former executive who is accusing the company of firing him for being gay.

Latham & Watkins LLP is serving as Digital Realty's legal counsel for the deal, with a team including Julian Kleindorfer, David Wheeler, Helen Kim, Brian Ahn, Eric Geffner, Milouska Hoppenbrouwer, Michael Brody, Ana O'Brien, David Taub, Julie Crisp, Jack Stratton, Aron Potash, Glen Collyer, Se Rim Hong, Henry Hattemer, Lewis Kneib, Brent Epstein and William Hackett.

Holland & Knight represented Digital Realty on the real estate component of the deal, led by Susan Booth and Stacie Goeddel.

Bank of America Merrill Lynch and Morgan Stanley are serving as its financial advisers.

Kirkland & Ellis is providing legal counsel for Telx, ABRY Partners and Berkshire Partners, with a team including Armand Della Monica, Joshua Kogan and Joshua Hanna.

Barclays and DH Capital are serving as their financial advisers.

--Editing by Christine Chun.

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