2023 Full-Year Results Briefing

Thank you for joining us for our 2023 full-year results briefing.

Key Highlights

Digital Core REIT successfully navigated a challenging environment in 2023 and emerged in a stronger position to capitalise on favourable fundamentals and our industry-leading acquisition pipeline to create durable value for unitholders in 2024 and beyond.

Our portfolio of mission-critical data centre facilities concentrated in top-tier global markets remained almost fully leased and generated better-than-expected cash Net Property Income, despite the bankruptcy of our second-largest customer. We delivered a full-year distribution per unit of 3.70 U.S. cents, down just seven percent year-over-year, as we managed to offset a significant portion of the much higher-than-expected interest expense through accretive investments and proactive cost containment.

We continued to advance our external growth strategy, completing the acquisition of a 10% interest in a freehold facility located in Osaka from Mitsubishi Corporation for ¥7.725 billion, or approximately US$51.5 million, establishing a presence in Japan, improving geographic diversification, enhancing overall portfolio quality, and generating approximately three percent DPU accretion.

We also repurchased nearly seven million units in 2023, at an average price of just under fifty cents, or a 7.5% DPU yield and a 26% discount to NAV – demonstrating our prioritisation of value creation over AUM growth and generating another 60 basis points of accretion, while adding just 20 basis points to leverage.

We reached a series of agreements to successfully resolve the bankruptcy of our second-largest customer, and in January, we closed on the sale of two Silicon Valley assets at book value, representing a 4.4% cap rate on 2024 cash NPI, and generating US$160 million of proceeds.

Finally, we preserved the flexibility of our balance sheet, despite a nine percent decline in asset value, as the proceeds from the asset sales in January significantly mitigated the impact.

Portfolio Update

Let's turn to our portfolio update on page five.

As mentioned, in early November, we closed on the acquisition of a 10% interest in a data centre in Osaka for ¥7.725 billion, or approximately US$51.5 million. This acquisition was funded with Yen-denominated borrowings on our multi-currency credit facility, and we entered into a swap agreement to fix the rate for a three-year term at an all-in borrowing cost of 1.3%. Since this investment was funded entirely with debt, the Osaka acquisition increased leverage by 250 basis points.

In addition, our portfolio was revalued at year-end, resulting in a nine percent decline in book value, on a 40-basis point increase in valuer cap rates. We show a high-level representation of the change in asset values by market in the chart at the bottom of page five, and we have also provided an asset-by-asset breakdown of the year-over-year change in values on page 12 of our presentation.

Aside from the largely expected changes in cap rates, we also rotated valuers for the first time since our IPO, and the property-level valuations do reflect the impact of two customer bankruptcies, including a sizable vacancy in Toronto, and a material reduction in lease term in Los Angeles.

Finally, however, in January, we closed on the sale of the two Silicon Valley facilities, generating US$160 million of proceeds, and reducing aggregate leverage from to 40.5% as at 31 December to 33.5% upon closing of the disposition on 12 January 2024.

The portfolio revaluation underscores the favorable execution achieved on the asset sales, in transacting at the prior year-book value and preserving the flexibility of our balance sheet.

Distribution Details

Let's turn to our distribution details on page six.

We expect to make a distribution of 1.78 U.S. cents on 27 March to unitholders of record as of 9 February, bringing our 2023 full-year distribution to 3.70 U.S. cents, despite the headwinds from interest rates and the customer bankruptcy.

As mentioned, we managed to offset a substantial portion of the impact of rising interest rates through a combination of proactively managing controllable costs and accretive investment activity. We expect interest rate headwinds to begin to subside going forward, but as a reminder, we will face a bit of a tough comp in 2024, due to the expiration of the Toronto cash flow support agreement on 31 December 2023 and the expiration of the amended leases for the two L.A. properties on 30 September of 2024, as previously disclosed in our *Strategically Positioning for the Future* presentation on 1 November 2023.

We believe we have appropriately reset the bar and established a base from which our accretive investment and proactive portfolio management will be able to generate cash flow growth for unitholders going forward.

We expect to publish our annual report and ESG report in late-March, and we expect to conduct our annual general meeting in mid-April.

Long-Term Runway for Growth

Finally, let's turn to page seven to discuss our runway for growth.

As you can see from the chart on the right, there has been a healthy flow of data centre investment activity over the past several months. Cap rates for fully-fitted facilities have begun to widen out, although investor demand for data centres remains robust, particularly for platform plays and shell & core facilities.

There are nuances to each of the transactions represented on this chart. At the high end of the range, our Sponsor recently sold one asset in the UK and another in Virginia at high single-digit cap rates, although both were non-core asset sales in tertiary markets.

Conversely, the going-in yield on the Toronto transaction was just a shade over three percent. However, this was a network-dense portfolio that was just 75% occupied and is expected to stabilise in the mid-to-high fours over the next several years. The truth – and the weighted average – is probably somewhere in between, particularly for shell & core facilities.

Keep in mind that the Fed has raised rates by more than 500 basis points over the past two years. Against that backdrop, it stands to reason that cap rates have edged higher.

However, we continue to see a very healthy bid for data centres in the private market, as evidenced by the real-time comps in the middle of the chart on page seven. In addition, data centre fundamentals continue to tighten, with a rapidly strengthening tailwind from artificial intelligence workloads. The acceleration in demand coupled with limited supply is driving greater embedded rent growth, serving to partially offset the impact of cap rate expansion on data centre valuations.

Finally, there is a silver lining to modest cap rate expansion.

The apparent peak of the tightening cycle has spurred a recovery in REIT share prices, at the same time data centre cap rates have begun to edge up – significantly narrowing the gap between valuations in the public market and the private transaction market. This convergence puts us in excellent position to capitalise on favourable fundamentals and our industry-leading acquisition pipeline to create durable value for unitholders.