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Brazilian boom

Datacenter providers expand LATAM presence backed by global investors

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Introduction

Brazilian datacenter providers have been working to broaden their portfolio of facilities and launch operations in Chile, Mexico and Colombia. With an initial wave of international projects finalized in 2020, many companies are announcing plans for second or third facilities in those markets. Recently backed by foreign investors, these providers now have access to new capital, and can leverage their existing infrastructure in Brazil – the largest datacenter market in Latin America – to increase their reach, building a network of facilities across the entire region.

Brazil-based providers Ascenty and ODATA are expanding aggressively to other countries, while newcomer Scala is not too far behind, despite only recently completing its first year of operations. These firms, by partnering with the likes of Digital Realty, CyrusOne and Digital Colony, respectively, each take on a dual role in the industry – serving as Brazil-born providers that hold a significant portion of the country's market share, while doubling as local branches to their global backers. The unique strategy positions these companies to be more competitive against multinational industry giants such as Equinix and Lumen, which are also taking impressive strides to grow their Latin America business.

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Brazilian providers' growth in their home country comes as no surprise – the industry consensus appears to be one of optimism regarding Brazil's datacenter markets. However, the fact that these same providers are entering other markets with seemingly the same levels of confidence is significant, especially considering the pandemic, which adds a lot of questions about the future of the industry. Partnering with foreign investors appears to have provided these companies with the necessary capital to conduct international expansions in the region. Yet it remains to be seen whether these new facilities are developments pursued organically by the Brazilian providers themselves, or rather a push from foreign investors to grow their local subsidiaries into fully fleshed out Latin American branches that operate across multiple countries.

Main players

Ascenty is one of the most prominent providers in Brazil's datacenter industry, and has been making notable progress in expanding its international activities. The company, founded in 2010, was acquired by Digital Realty and Brookfield Infrastructure Partners in 2018, and they serve as majority shareholders to this day. Since then, the firm has pursued an aggressive expansion strategy in Latin America; within the last two years, Ascenty has doubled its number of facilities in the region.

Although much of that growth can be attributed to new datacenters in the São Paulo area, it also includes the company's launch of operations in new markets. Ascenty started construction on its first Chilean datacenter in 2019, starting operations in November 2020. The firm is currently building a second facility in Chile and two in Mexico, all set to launch by the end of the year. Company leadership has also studied possible opportunities in the Colombian market, hoping to establish Ascenty's first venture in the country by late 2022, although an announcement on an official facility has not yet been made.

Another major player in the Brazilian market is ODATA. Backed by the Pátria Investimentos private equity firm, the provider operates a 15.6MW datacenter out of São Paulo and a 4.6MW facility in Bogotá, Colombia. It has started construction on a second São Paulo facility that is set to offer 40MW of additional capacity, but is also contemplating building international facilities in Argentina, Chile, Mexico and Peru. Like Ascenty, ODATA is partially backed by a real estate investment trust, CyrusOne, which acquired a 10% stake in the company in 2018.

Most recently, investment firm Digital Colony purchased two datacenters from UOL Diveo, both located in São Paulo, and created Scala Datacenter as its local Brazilian subsidiary in charge of managing the facilities. One year later, Scala still only provides 29MW in total capacity, operating its two original facilities in São Paulo. However, it has set multiple expansion plans in motion.

Currently, Scala is completing construction on an SP3 facility, which will launch operations imminently in the second quarter of 2021. The firm is also moving ahead with plans for SP4, while considering building SP5 and SP6 facilities, as well as two additional campuses in the São Paulo countryside. If executed, the plans would increase the provider's number of facilities from two to eight by 2025, adding over 280MW in power to the Sao Paulo market within the next for years.

Like its competitors, Scala is looking to establish a significant network in other Latin American markets, despite its short history. Its plans include the construction of multiple facilities in Chile, Mexico and Colombia, with a target of 80MW in total capacity for each country. Although details on those international expansions are still unclear, the provider's confidence in its ability to undertake this many new ventures is likely a testament to Digital Colony's interest in Latin America, and the sizeable investment it has made in the region.

A winning strategy?

Ascenty, ODATA and Scala are examples of local providers that found the financial support necessary for their ventures through partnerships with foreign investors. Global providers such as Equinix and Lumen are also pursuing significant advancements in their respective Latin America activities, but arguably undertaking a different strategy.

Brazilian providers pride themselves on being local, even if partially owned by foreign investors, citing it as an advantage over competitors due to an innate understanding of the region's complex markets. Given Brazil is the largest datacenter market in Latin America and already achieving solid growth, with a CAGR of 13% between 2015 and 2020, it is only natural that these companies would look outside their country's borders for further expansion.

Yet, how does demand in Chile, a country of roughly 20 million people, compare to demand in Mexico, with its population of 130 million? One would expect these providers to be more interested in Mexico due to its sheer size, but Chile appears to be the one attracting the largest amount of investment, due in part to new undersea cables set to land there from Asia.

A market such as Chile is likely easier to operate in than Brazil as well, due to differences in taxation and legislation, with Brazil being infamous for the heavy tax burden it places on enterprises. At the moment, not much has been said about the differences between these countries and the nuances of operating across borders, so providers might still have a long way to go before being able to fully replicate their Brazil success stories in other countries.

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