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DIGITAL INFRASTRUCTURE

Looking Back, Looking Ahead

HORIZON SCANNING
Digital

CONTENT

INTRODUCTION

2024 was a huge year of investment and innovation across the digital infrastructure space, and we saw an extremely busy year of transactional and advisory work throughout the sector. We also saw regulators continue to grapple with how best to regulate a sector that underpins the digital economy: governments worldwide now increasingly recognise digital infrastructure assets as being crucial to both economic growth and national security, and they are looking to regulate the sector accordingly.

In this publication, we take a brief look back at some of the key themes and trends we observed in 2024 and share our thoughts on what lies ahead this year.

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LOOKING BACK ON 2024…

2024 was a bumper year of investment and dealmaking activity in the sector, with increasing recognition that digital infrastructure assets are key to security and growth.

Powering up investment

Digital infrastructure assets proved to be resilient against wider economic uncertainty and 2024 saw a huge amount of M&A and investment activity. Private capital (particularly patient capital invested by sovereign wealth funds and public pension funds) continued to dominate.

It was a busy year right across the value spectrum, from the Scottish National Investment Bank's £10m investment in Highland Broadband to a Blackstone-led consortium's $16bn buy-out of AirTrunk. Data centre investment, in particular, remained red-hot: the UK's new Labour government welcomed plans from four operators to invest £6.3 billion in UK data centre infrastructure as a "vote of confidence" and key emerging markets in the sector like India, Indonesia and Malaysia continued to see investment pouring in.

That said, we have also seen a number of aborted processes, often resulting from delays in EDITDA-generating tenant contracts or investors being more selective in the particular assets within a portfolio they want to invest in.

A national security focus

As cyber-attacks become more sophisticated, extreme weather events become more common and global geopolitics remain precarious, governments around the world are increasingly looking at the potential impact of key risks on their jurisdiction's digital infrastructure – and, in turn, on their economies and national security.

The UK government designated large parts of the sector as "Critical National Infrastructure" last year, effectively giving in-scope assets the same status as energy supplies and the healthcare system. It's a global trend: the Singaporean government established an inter-agency Taskforce on the Resilience and Security of Digital Infrastructure and Services, and the Nigerian government issued a new "Critical National Information Infrastructure Order" aimed at enhancing the security of Nigeria's digital infrastructure assets and systems.

LOOKING BACK ON 2024...

We saw digital infrastructure players beginning to lead the way in the global energy transition, looking hard at how to monetise existing assets and creating partnerships and synergies for growth.

The continued rise of the YieldCo?

Operators looked hard last year at how to monetise existing, stabilised assets to fund development costs (in particular for new data centres and network deployment).

While they have always been a feature of this sector, we saw a rise in carve-out YieldCo-style transactions where stabilised assets are carved out and sold, with the operator providing operational and management services and often retaining an investment.

Third-party consents can be a challenge in executing these, particularly in relation to hyperscaler data centre assets.

The power problem persists

Digital infrastructure demand continued to soar, driven in large part by the mass adoption of AI technologies. Fuel shortages brought the sector's huge power needs to the fore, and we saw digital infrastructure players placed at the vanguard of the energy transition.

Paradoxically, the same AI technologies that are driving up power consumption are already being leveraged by operators to make digital assets more sustainable and efficient - and we saw an emerging trend of digital infrastructure players partnering with, and investing in, providers of cleaner energy.

We anticipate continued pressure on the sustainability promises and credentials of these players, at least in Europe, but we think it's an exciting opportunity for the sector to pave the way over the coming years.

Synergies and diversification

We observed digital infrastructure players looking to diversify their offerings across the board last year, as well as entering into partnerships aimed at realising cross-sector synergies.

A number of acquisitions and partnerships sought to integrate capabilities across the value chain – in particular, we saw hyperscalers looking to acquire and integrate edge computing companies and IoT platforms, and telcos increasingly looking to leverage partnerships with hyperscalers.

Many of those partnerships are longer-term commitments, like Microsoft and Vodafone's 10-year strategic deal to collaborate on AI and cloud expansion.

LOOKING AHEAD TO 2025...

We expect a busy year of operator consolidation and investment in telecoms, alongside growth in the satellite sector and further opportunities to monetise passive infrastructure.

A new wave of altnet deals

Building networks in a time of soaring borrowing costs has made the last couple of years difficult for altnets – and many have pivoted to focus on commercialisation rather than capacity build. Many of the altnets which have weathered the storm are sitting on significant operating losses. Valuation gaps present a challenge but, if they can be bridged, we expect this year to see the real wave of consolidation and investment opportunities in the sector at both ends of the spectrum: both for relatively well-built networks approaching profitability and for struggling assets that can be bought cheaply.

Consolidation in telecoms...

We expect to see a very busy year of activity in the telecoms sector. We think there are likely to be further opportunities for operator consolidation in European markets, if players can demonstrate that a consolidated operator can better invest in, provide and maintain high-quality consumer services. We advised Vodafone on the competition aspects of its cleared merger with Three. We also expect to see continued consolidation of assets – as we've seen with fibre assets in Spain and other countries. We also anticipate smaller-scale fibre assets will become prime acquisition targets for larger players.

... and monetisation in telecoms

We also expect to see a wave of FibreCo and NetCo transactions involving third-party investment as well as consolidation of assets. Secondary sell-ons of TowerCo stakes are also likely to continue as the initial investment cycle of TowerCo transactions comes to an end.

Satellite spin-offs

Eutelsat's 2024 carve-out of its ground infrastructure is reminiscent of the wave of TowerCo deals in the late 2010s and the other InfraCo deals we've seen since then. We expect to see a similar trend emerging in the satellite sector over the next few years, with companies looking to carve out and monetise their passive infrastructure and, potentially, service offerings (e.g. connectivity capacity). We expect to see this in Europe in particular, where many players are struggling to keep pace with the US satellite industry.

Spectrum liberalisation

We also expect to see continued liberalisation of spectrum this year: in the UK, OFCOM will consult on proposals to make certain spectrum bands available for satellite gateway use, paving the way for direct-to-device connections for the first time.

LOOKING AHEAD TO 2025...

Resource constraints will continue to drive innovation, and we see a real need for dialogue and communication between digital infrastructure companies and regulators.

Water, water, water!

Until now, the focus has largely been on the digital infrastructure sector's energy consumption – but we expect increasing scrutiny of its usage and stewardship of a finite resource, water, to become a key theme in the years ahead. Data centres, in particular, are often constructed in water-stressed areas and use vast amounts of water for liquid cooling. And it's likely to become a tricky balancing act between scarce resources: air cooling, for instance, uses less water than liquid cooling but requires significantly more power. We expect to see increased pressure on digital infrastructure players to demonstrate that their water consumption is sustainable. Some are already doing so: AWS intends to be "water positive" by 2030 (meaning that it will return more water than it uses).

Houston, we *might* have a solution

Once seen as a slightly left-field solution, we think digital infrastructure players are likely to continue to look skywards for many solutions to the problems and constraints the sector is facing. Lumen Orbit recently raised more than $10m to put a data centre into orbit, and a European Commission study on the feasibility of solar-powered data centres in orbit showed "promising" results.

And it's not just data centres that have people looking to space: the International Telecommunication Union received more applications for the use of lunar spectrum from private companies than from space agencies and governments last year.

Investing for the future

We expect the voracious appetite of private capital for digital infrastructure assets to continue unabated. In particular, data centre M&A and investment shows no sign of slowing down and major new partnerships between data centre REITs/developers and private equity/credit will turbocharge growth in the years ahead (typified by the announcement of the recent Stargate Project). However, the release of the DeepSeek Gen AI model is a reminder that investment assumptions can also be challenged by rapidly developing technologies and that may have an impact on the specific allocation of capital.

Tier II growth markets will also benefit from eager investors looking beyond established markets to unlock new capacity and meet hyperscaler demand.

Regulation for growth?

We think there is a massive opportunity for genuine collaboration between governments and digital infrastructure players in framing the regulatory road ahead. In many countries, 2024 was a pivotal moment when governments recognised digital infrastructure as being critical to security and the modern economy. Governments worldwide now understand that protecting the sector while encouraging growth and investment is essential – and finding a regulatory landscape that does just that will require dialogue and partnership.

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