DATA CENTRES: RISKS AND OPPORTUNITIES

November 2025

KEY POINTS

- We expect data centre capex to be higher than consensus expectations as customer demand and competitive pressures motivate the cloud and AI infrastructure buildout.
- The data centre boom is broader than just the big tech players, with investable opportunities in select non-tech industries supporting the buildout.
- Signs of excess have emerged in corners of AI-related investments with valuations reflecting significant optimism.

SUMMARY

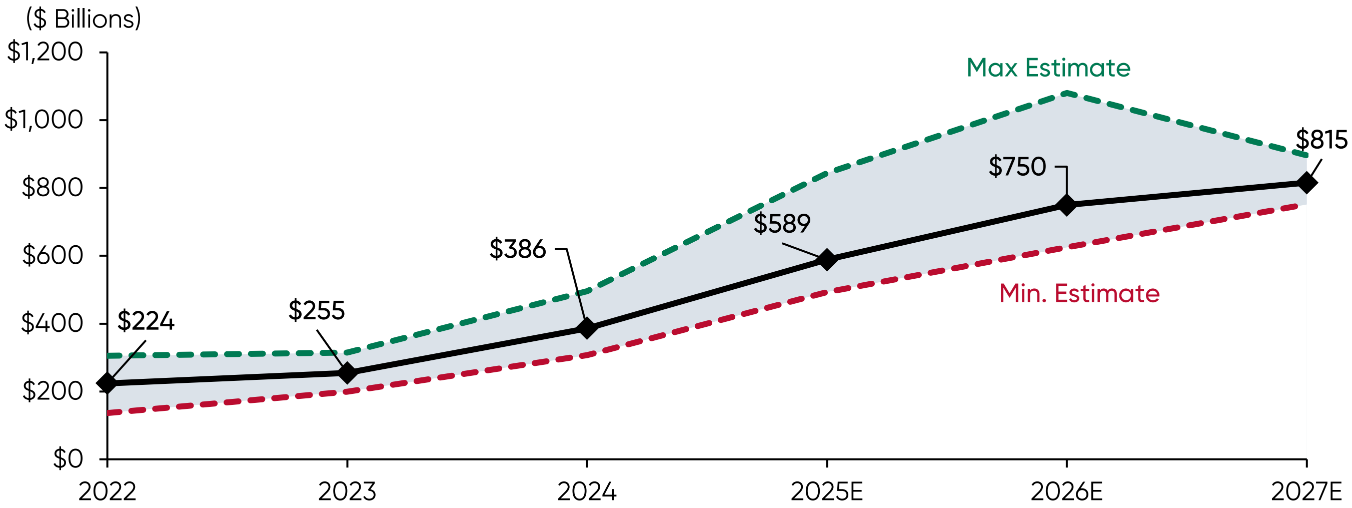
Artificial intelligence (AI) and the massive infrastructure buildout surrounding it have dominated headlines since ChatGPT burst into the mainstream in November 2022. Some cast AI as the next Tech boom, with investment pouring into data centre buildouts. Others, however, see the next Tech bust, arguing that interconnected revenues are artificially propping up markets.

Some of these points are valid. Others aren't. But the comparison tells you nothing about how this cycle will end – it simply illustrates barbelled sentiment between broad euphoria and broad scepticism. Opportunities in the space exist with portfolios having exposure to AI trends, and current portfolio construction takes into account both the risks and opportunities we've identified.

IS DATA CENTRE CAPEX UNDERESTIMATED?

The global transition from general-purpose CPUs to accelerated computing and generative AI investment will require massive data centre (DC) capex (Exhibit 1). While the DC buildout is well known by investors, current industry estimates on new capacity still fall short of our estimates, as many analysts rely on historically conservative company guidance.

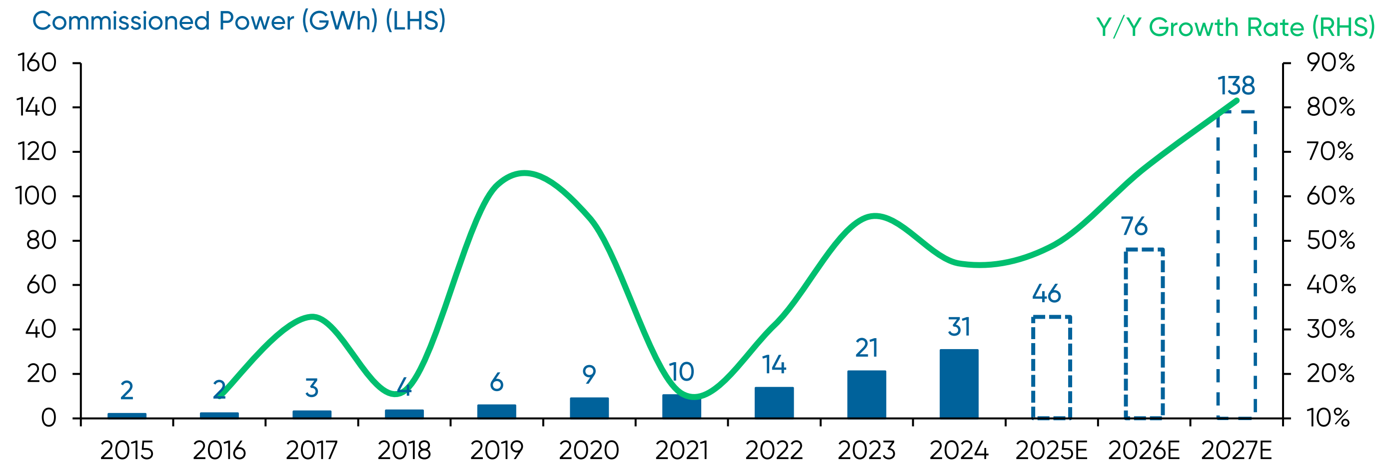
Exhibit 1: Estimated DC Capex Spend



Source: Fisher Investments Research as of 3/11/2025. Average of 5 global data centre capex estimates based on Dell'Oro, Morgan Stanley, IDC, and Cloud Service Providers & Meta's capex, Semiconductor DC segment Revenues from 2022-2027.

Our estimates utilise data on commissioned (i.e. built or completed) DC capacity and planned DC capacity in gigawatts. Planned DC capacity is based on an announced construction plan, electricity purchase contracts, zoning commission permits, and other factors that are at the pre-construction stage. Our methodology is based on a strong relationship between planned DC capacity becoming commissioned capacity over 2 to 2.5 years. (Exhibit 2).

Exhibit 2: DC Commissioned Power Capacity



Source: DatacenterHawk as of Q4 2024.

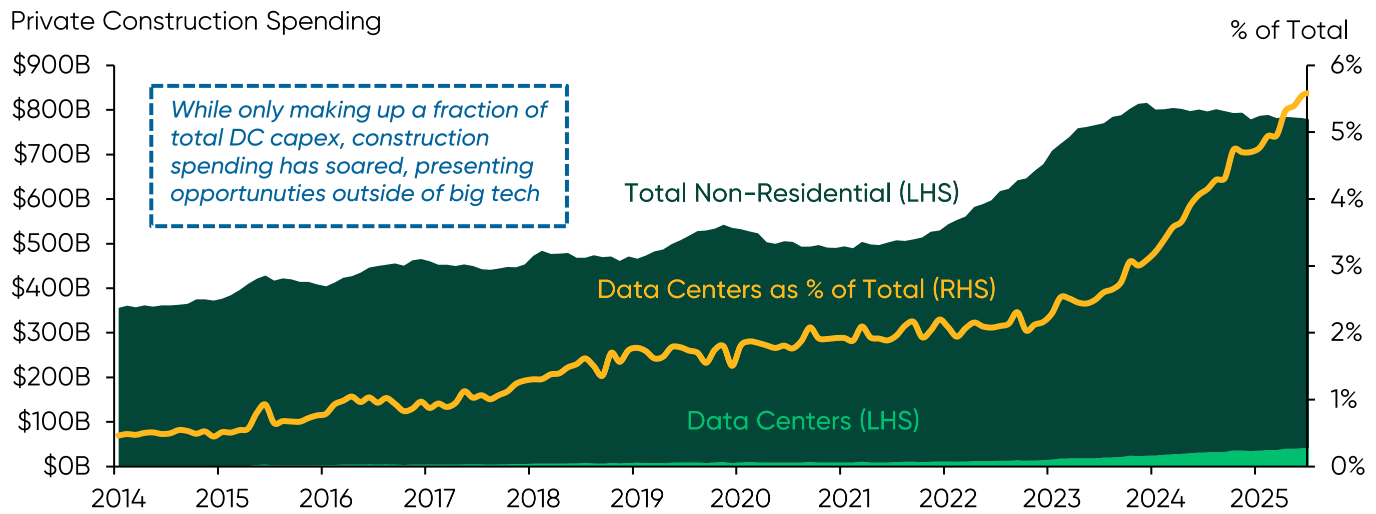
Such massive commitments aren't guaranteed to be realised, however, and risks to the current planned buildout could knock current estimates. Risks including infrastructure constraints surrounding electricity supply, AI/software efficiency gains, a slowdown in the US or global economy, and slowing demand could all lead to a lower than expected data centre buildout.

PICKS AND SHOVELS

Dizzying valuations and revenue projections among AI's biggest players have dominated the conversation around AI and the DC buildout. While we don't discount these firms as the driving force behind growth, they're not the only ways to gain exposure to these trends.

While select semiconductor, cloud services and software companies offer direct exposure to AI trends, other firms in IT hardware, construction, HVAC, power generator manufacturing, and electrical equipment also derive material revenues from the DC buildout (Exhibit 3) while still emphasising portfolio exposure to the offensive value/non-US leadership we expect to outperform.

Exhibit 3: Data Centre Construction Growing Sharply



Source: Macrobond as of 29/10/2025. US Construction Finances, Private, Non-Residential. Data shown from 1/1/2014-1/7/2025.

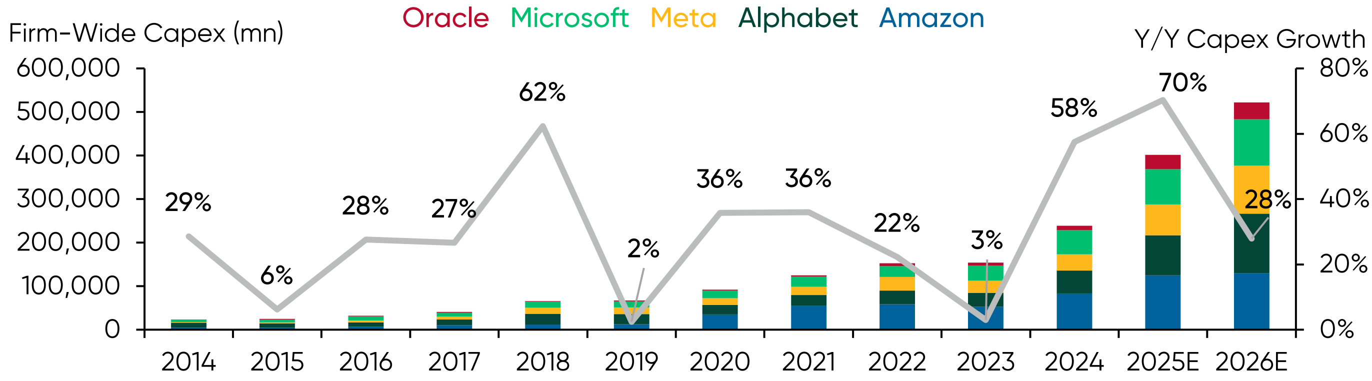
EMERGING RISKS IN THE DC BUILDOUT

Signs of excess are emerging in AI-related investments, primarily frothy valuations for the biggest cloud service providers (CSPs), venture capital (VC) fundraising, public-private partnerships, and unique off-balance sheet funding agreements. Further, investors are concerned about the AI ecosystem becoming increasingly "circular", as suppliers fund customers and cross-ownership spawns a web of interconnectedness across major AI players. While we acknowledge some of the risks as genuine, the scale of most of these risk factors is still small and tends to be concentrated in private markets.

Valuations

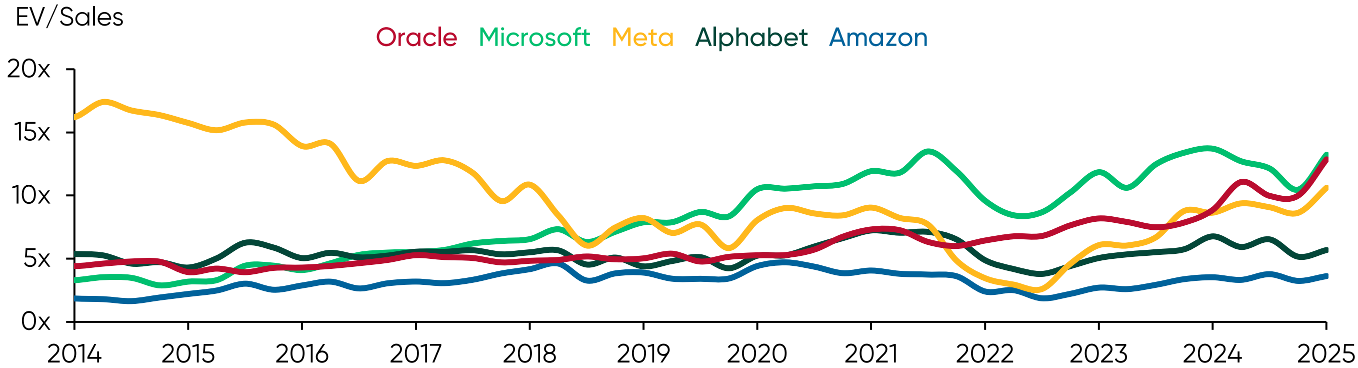
Hyperscalers and other CSPs have spent furiously on data centres to facilitate AI adoption, regularly exceeding expectations. (Exhibit 4) Valuations reflect this optimism, as the biggest players in the space have seen rapid multiple expansion. (Exhibit 5)

Exhibit 4: Cloud Service Provider Capex Has Surged



Source: Company filings, FactSet, broker research as of 29/10/2025. Actual results shown from 2014-2024. 2025-2026 are estimates.

Exhibit 5: Cloud Service Provider Valuations Rising in Tandem

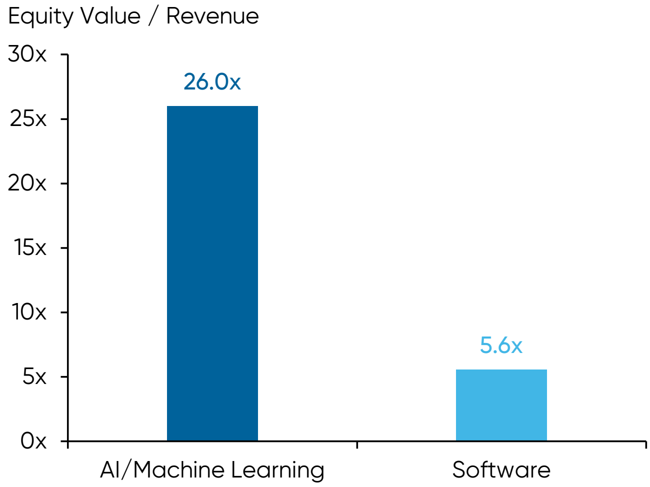


Source: FactSet, as of 3/11/2025. Enterprise Value / LTM Revenue shown quarterly from 30/6/2014-30/6/2025 (most recent earnings available).

Private Capital

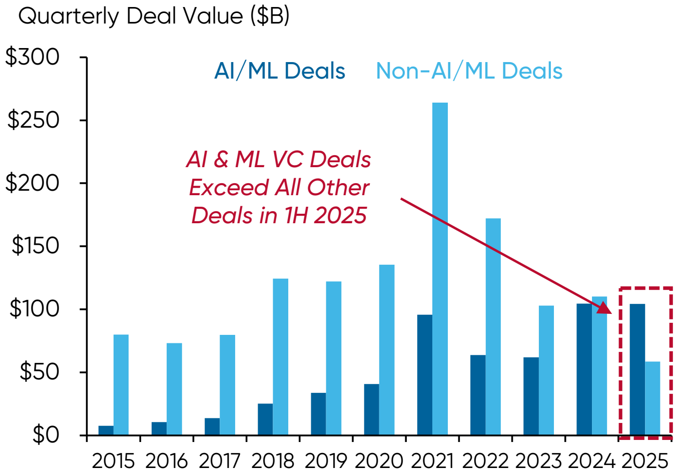
The largest area of excess appears to be in AI-oriented VC funding. Select AI-oriented firms have raised hundreds of billions at an average Equity Value/Revenue multiple of around 26x, while recent non-AI software transactions commanded multiples closer to 6x EV/Revenue. (Exhibit 6) Within Venture Capital dealmaking, AI and machine learning (ML) related start-ups dominate the space in deal value, as AI/ML venture deals have exceeded other categories through the first half of 2025. (Exhibit 7) While growing, exuberance in investments is still largely concentrated in private markets.

Exhibit 6: AI vs. Traditional Software Valuations



Source: FactSet, company filings, Forbes, press releases, PitchBook, tracxn.com, Sacra, and TechCrunch, as of 5/9/2025.

Exhibit 7: VC Investments Primarily AI Related



Source: Pitchbook as of 30/6/2025. Data shown from 2015-2025.

Special Purpose Vehicles (SPVs)

Special Purpose Vehicles, or SPVs, are bankruptcy remote financing entities that have grown in popularity among hyperscalers to fund the DC build out. It allows them to shift the assets to the SPV and avoid adding debt to their own balance sheets and reduce upfront capex, effectively becoming a lessee of the servers/GPUs in the data centre. We scale funding raised by DC SPVs at approximately $59 billion to date, versus the trillions of dollars that have been and could be spent on data centre capex over the coming years. Making up just a fraction of total DC spending, we believe SPVs are too small to be a material risk for DC buildout and market performance, though the prevalence and risk of DC SPVs may rise as AI firms increase capex.

'Circular' Financing

The partnerships among AI firms harken back to the vendor financing arrangements during the dot com bubble, when manufacturers provided credit for their customers to purchase their products. We view today's AI deals much differently. Fundraising and M&A deals that fall under the 'circular' category (such as those between Nvidia and OpenAI) have totaled approximately $188 billion, a fraction of the trillions of cumulative capex (spent or planned) in the DC buildout. Further, the concept of 'circular investments' asserts there is little end customer demand. However, there has been sizeable customer AI adoption and revenue impact for firms across cloud service providers, leading large language model (LLM) startups, Software, and Search. While we don't view this as a material risk at current levels, overbuilding ahead of customer demand along with concentration in relatively few enterprise customers present risks worth monitoring.

CONCLUSION

Booming equity markets and eye-catching capital expenditure estimates have made the DC buildout a lightning rod for investors. One side is hyping revolutionary technology set to drive explosive productivity gains, while the other is deriding investors for not seeing the parallels between today and the 1990s. While we are bullish and see many false fears, we also see negatives worth monitoring and remain watchful for the potential overinvestment and exuberance in AI and data centres.

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