

Communications Infrastructure

Tales from the road: Takeaways from mgmt. meetings with DY and DBRG

Industry Overview

Takeaways from mgmt. meetings with DY and DBRG

We were pleased to host meetings with management teams from DY and DBRG during the BofA Southeast Florida REIT Bus Tour this week. We hosted DY's Steve Nielsen (CEO), Drew Deferrari (CFO), and Callie Tomasso (IR). Discussion topics included 1) fiber-to-the-home runway, 2) rural vs. urban builds, 3) customer behavior, and 4) wireless business outlook. We also hosted DBRG's Marc Ganzi (CEO), Jacky Wu (CFO), and Severin White (IR). Our discussion revolved around 1) robust data center demand, 2) carrier activity both domestically and abroad, 3) small cell outlook, and 4) M&A and interest rate expectations. Please reach out to the team for additional details.

Fiber buildout plans on track, wireless demand still muted

DY continues to see a strong runway for customers to hit their long-term fiber initiatives and mgmt. highlighted its wireline business is ~4-5x the market share of its closest peer. Relative to the ~60mn fiber enabled locations to date in the US, mgmt. believes there are ~40-50mn additional locations to be passed via current commitments. On top of this, DY believes ~20-30mn rural locations will be passed via federal funding programs and 10mn locations will be served by non-wired connections. Working in rural communities is not new to DY. Mgmt. noted deployments tend to skew towards more aerial deployments (vs. underground) and rural fiber builds are also more expensive. All states have submitted BEAD applications to the NTIA for review with Virginia and Louisiana already receiving approval. DY believes BEAD funding represents a 'support' of the fiber buildout trend, as opposed to it being a trend within itself, and mgmt. still believes the majority of funding will flow to the states in late 2024 and early 2025. While DY's wireless business comprises <5% of revenues as of FY3Q24, it continues to see a lull in carrier activity for macro deployments and small cell activity has not picked up rapidly.

Data center growth robust, small cells to ramp in 2025+

DBRG owns a vast portfolio of comm infra companies via data center, tower, small cell, and fiber businesses. Mgmt. sees data center demand growing in the coming years and highlighted it expects \$13bn of data center capex in 2024. Data center leasing in 2024 is expected to be comprised of 50% from AI demand (from 20% in 2023), 15-20% from edge (from 18%), and the remainder from Cloud (from ~60%). While there are land and power procurement problems around the world, DBRG is focused on expanding its footprint in global markets like Atlanta, Austin, Berlin, Indonesia, Malaysia, and Milan, amongst others. DBRG is also working to build wind farms and hydropower facilities in some of these markets to assist with power issues. On the Tower side, DBRG anticipated a decline in domestic carrier activity in 2024 but believes there will be a necessity for certain carriers to come back and deploy. DBRG noted it is seeing solid carrier demand in Asia, Europe, and Latin America. Small cell deployments are expected to increase in 2024 and 2025, but mgmt. expects the strongest small cell growth in 2026-2028. The current economic environment has continued to make M&A deals hard to get over the finish line. Mgmt. highlighted it is 'less bullish' on interest rate cuts in 2024 and noted there are no rate cut assumptions in their 2024 plans.

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Equity
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Infrastructure

Alexander Waters

Research Analyst
BofAS
+1 646 855 0684
alexander.waters@bofa.com

David W. Barden, CFA

Research Analyst
BofAS
+1 646 855 1320
david.w.barden@bofa.com

BEAD: Broadband Equity, Access, and
Deployment

NTIA: National Telecommunications and
Information Administration

DY: Dycom Industries

DGRB: DigitalBridge

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