

Data centers

META, MSFT, and VRT read-throughs for the industry

Results highlight ongoing AI enthusiasm and data center supply constraints. META and MSFT plan to further increase capex to build additional capacity to meet strong demand.

Our view: *Our checks suggest hyperscalers and other large absorbers of DC capacity are being increasingly thoughtful with their data center footprint expansions. This is resulting in more detailed negotiations over specifications and deals taking longer to finalize. That said, we are still seeing a steady cadence of leases being signed...for now. We remain cautious on the durability of current trends and think a lull in DC leasing could materialize.*

META is covered by Ross Sandler, MSFT is covered by Raimo Lenschow, and VRT is covered by Julian Mitchell.

META

META raised its 2025 capex outlook by \$1b to \$69b at the midpoint (+85% y/y). The company expects further capex growth in 2026, primarily to increase capacity to meet AI needs. The company's 2Q25 capex totaled \$17b, driven by investments in servers, data centers, and network infrastructure.

- **Capex growth is driven by investment in infrastructure to support AI.**

- *On the CapEx side, the big driver of our increased CapEx in '26 will be scaling gen AI capacity as we build out training capacity. That's going to drive higher spend across servers, networking, data centers next year. We also expect that we're going to continue investing significantly in core AI in 2026. (Susan Li)*
- *We also expect that developing leading AI infrastructure will be a core advantage in developing the best AI models and product experiences, so we expect to ramp our investments significantly in 2026 to support that work. (Susan Li)*

- **Data center projects are getting larger to meet growing AI needs.**

- *We don't have any finalized transactions to announce, but we generally believe that there will be models here that will attract significant external financing to support large scale data center projects that are developed using our ability to build world-class infrastructure while providing us with flexibility should our infrastructure requirements change over time. So we are exploring many different paths. (Susan Li)*

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Completed: 31-Jul-25, 02:15 GMT Released: 31-Jul-25, 02:15 GMT Restricted - External

- *Our Prometheus cluster is coming online next year, and we think it's going to be the world's first gigawatt-plus cluster. We're also building out Hyperion, which will be able to scale up to five gigawatts over several years. And we have multiple more Titan clusters in development as well. We are making all these investments because we have conviction that superintelligence is going to improve every aspect of what we do.* (Mark Zuckerberg)
- **Meta is focused on both AI training and inferencing deployments.**
 - *And then, of course, to make sure that we are building the training capacity that we think we need in order to build frontier AI models, and to make sure that we're preparing ourselves for the types of inference use cases that we think that we might have ahead of us as we eventually focus not only on developing frontier models, but also how we can expand into the kinds of consumer use cases that we think will be hopefully widely useful and engaging for our users.* (Susan Li)

MSFT

Azure's FY25 revenue totaled \$75b (+34% y/y). MSFT cloud revenue beat expectations by \$47b, up +27% y/y and 25% in constant currency y/y. MSFT expects capex of at least \$30b in fiscal 1Q26 (+50% y/y, -12% q/q). For FY26, MSFT guides for capex growth to *moderate* compared to FY25, with a greater mix of short-lived assets.

- **MSFT remains capacity constrained, despite rapid data center expansion**
 - *We opened new DCs across six continents and now have over 400 data centers across 70 regions more than any other cloud provider.* (Satya Nadella)
 - *We stood up more than two gigawatts of new capacity over the past 12 months alone. And we continue to scale our own data center capacity faster than any other competitor. Every Azure region is now AI first. All of our regions can now support liquid cooling, increasing the fungibility and the flexibility of our fleet.* (Satya Nadella)
 - *Even as we continue bringing more data center capacity online, we currently expect to remain capacity constrained through the first half of our fiscal year.* (Amy Hood)
 - *While we brought additional data center capacity online this quarter, demand remains higher than supply.* (Amy Hood)
- **Cloud migration is accelerating with additional use cases.**
 - *This quarter, we introduced the Microsoft Sovereign Cloud, the industry's most comprehensive solution, spanning both public and private cloud deployments. All of this innovation is driving our strong results. We saw accelerating growth from migrations again this quarter.* (Satya Nadella)
 - *The next big accelerator in the cloud will be quantum. And I'm excited about our progress. In fact, earlier this month, we announced the world's first operational deployment of a level two quantum computer in partnership with Atom Computing.* (Satya Nadella)
- **Capex growth is continuing, but shifting towards short-lived assets such as chips and servers.**
 - *We will continue to invest against the expansive opportunity ahead across both capital expenditures and operating expenses, given our leadership position in commercial Cloud,*

strong demand signals for our Cloud and AI offerings, and significant contracted backlog. Capital expenditure growth, as we shared last quarter, will moderate compared to FY '25, with a greater mix of short-lived assets. Due to the timing of delivery of additional capacity in H1, including large finance lease sites, we expect growth rates in H1 will be higher than in H2. (Amy Hood)

VRT

VRT's 2Q25 results included a record \$3b+ of orders (+15% y/y) and backlog of \$8.5b (+21% y/y). The company sees data center market growth closer to the high end of its 15%-17% outlook through 2029E.

- **VRT sees strong demand for its data center business continuing for the foreseeable future.**

- *We are in a digital revolution that's got a long way to go and data centers remain fundamental to all of it. (David Cote)*
- *Growth is certainly ongoing and it is here to stay. We have demonstrated the ability to meet our customer needs, and to gain market-share, delivering a 30% sales growth in the first-half of '25. (Albertazzi)*
- *Certainly, we like what we see in terms of market demand. Certainly, going back to the point we're making, that range for hyper and colo that we gave, the 15% to 17%, we're probably thinking about the upper end...But again, we're not even shocked in terms of that because we've been talking about our pipeline getting stronger for quite some time. (Giordano Albertazzi)*

- **Speed to deployment is a priority for VRT's data center customers. As a result, VRT is providing more modular solutions.**

- *We know that the industry needs speed and speed in construction is paramount for success for our customers. But also, as I said several times, this is the construction industry. And if you have to build very, very, very complex systems like data centers, on-site at speed, then there certainly are challenges, shortages, manpower, skilled labor shortages and surely things can be done better in a prefabrication setup and mode. So, yes, we see an acceleration in the modular business. (Giordano Albertazzi)*

- **Commentary also highlights improving regulatory environments in the US and EMEA for digital infrastructure and AI investments.**

- *In EMEA, while 2025 full-year net sales are expected to be flat compared to 2024, we are seeing sequential growth in the orders pipeline, providing optimism for 2026 and beyond. The regulatory environment is becoming more conducive to AI infrastructure investment, reflected in our customer discussions and pipelines. (Giordano Albertazzi)*
- *If we think about the US environment, of course, we see a lot of attention from the administration for the sector. It's not just the sector in terms of data center... but elements that are then conducive very much to data center growth that is all-around power grade and power generation. (Giordano Albertazzi)*

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