Citizens | DH CAPITAL

POWERING THE FUTURE OF AI: TALEN ENERGY'S $650MM DATA CENTER DEAL

At a glance

Data centers sit at the intersection of two increasingly important trends: soaring power usage resulting from cloud computing and AI, and an increased focus on reducing carbon emissions. Anticipating these trends and seeing an opportunity, Talen Energy invested heavily to create Cumulus Data, a cutting-edge data center with an on-site 2.5 giga-watt (2,500 mega-watts) carbon-free energy plant.

From the beginning of the initiative, Talen engaged DH Capital, a Division of Citizens, to help navigate the data center marketplace and fully optimize their investment. With DH Capital's extensive experience in internet infrastructure, deep industry relationships and broad capital markets platform, Talen was able to realize both a significant return on their investment with the March 2024 sale of Cumulus Data to Amazon Web Services for $650mm and meaningful upside with a negotiated 10-year Power Purchase Agreement (PPA).

The situation

In the 2010s, data centers represented less than 2% of energy grid consumption[1] and increases in demand were predictably based on increases in population. But in the 2020s, projected energy consumption began accelerating due to the growth/future needs of cloud services and increased penetration of power-intensive AI.[2]

The significant change in the future consumption profile represented a challenge for traditional energy suppliers, primarily due to lead times required to increase supply capacity online. Moreover, many of the data center owners and tenants were high-profile technology companies who were making public climate commitments, including pledges to reduce emissions and increase use of low-carbon energy.

To complicate matters further, data centers require access to extremely specific real estate: they must be placed on a 100–1,000 year flood plain with great optical fiber access and located on sprawling, flat, developable land.

"Several things took place in the last five years that have completely changed the landscape. First, data centers have become an important part of energy use on the grid; there has also been an increased focus on carbon footprints of big technology companies; and the emergence of AI has driven power requirements that are 10x what cloud computing requires."

– ***Douglas Webster***, *Managing Director at DH Capital, a Division of Citizens*

1. Stanford University, Growth in Data Center Electricity 2005 to 2010
2. International Energy Agency, Electricity 2024 report

Turning vision into reality

Five years ago, Talen Energy, an independent power producer and infrastructure company, recognized an opportunity to diversify its business and address this challenge by developing plans to build a data center campus with energy supplied directly from an adjacent nuclear plant. As part of this approach, a consultant advised Talen to consider leveraging DH Capital's 20 years of expertise in data centers to evaluate their strategic, financing, capital markets and M&A options.

Starting in 2019, DH advised Talen on their capital raising approach and helped develop their visionary strategy until it was ready to bring to market. Given that nuclear power does not directly produce carbon or other greenhouse gas emissions, Cumulus Data was well-positioned to meet the growing need for low/zero emissions data centers when it was brought to life.

Capitalizing on an opportunity

Leveraging their end-to-end investment banking capabilities, DH Capital helped drive the sale of Cumulus Data to Amazon Web Services for $650mm. As part of the negotiations, Talen also secured substantial upside with a 10-year PPA with AWS to purchase power from the existing plant. The outcome for Talen was not only a meaningful return on their initial investment and a strengthened balance sheet, but also a significant ongoing revenue stream through the PPA.

Impact & future

As industries across the spectrum develop generative AI strategies, a push is on to identify real estate and facilities to meet the associated energy demands.

The synergy between DH Capital's specialist industry expertise and Citizens' broad commercial banking platform was pivotal in making the Talen deal come to fruition. As new deals proliferate, companies will increasingly rely on seasoned advisors and trusted financial partners to ensure near- and long-term success.

In 2022, Citizens acquired DH Capital as a valuable addition to the firm's specialist M&A capabilities. DH combines industry expertise in internet infrastructure, telecommunications, and SaaS with proven execution in debt & equity raises and M&A. By leveraging long-term client relationships and the full resources of Citizens' investment banking platform, the team continues to deliver innovative, forward-thinking solutions for clients.

For more information about our services, visit citizensbank.com/commercial.

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