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LISTED INFRASTRUCTURE

Stronger signals: A turning point for cell towers in U.S. and Europe

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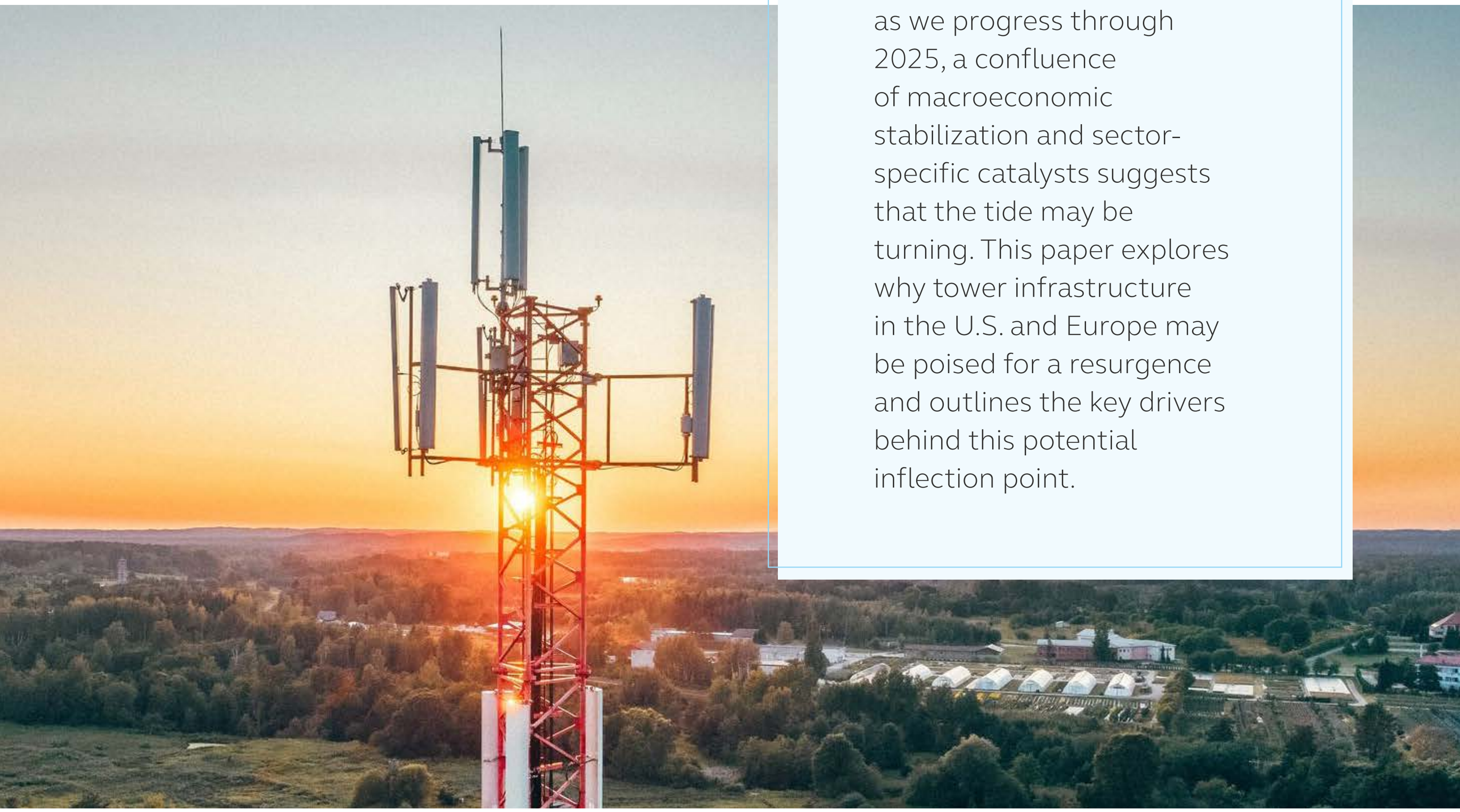
Characterized by higher interest rates in most developed markets, the last few years have weighed on high-duration assets such as towers. However, as we progress through 2025, a confluence of macroeconomic stabilization and sector-specific catalysts suggests that the tide may be turning. This paper explores why tower infrastructure in the U.S. and Europe may be poised for a resurgence and outlines the key drivers behind this potential inflection point.



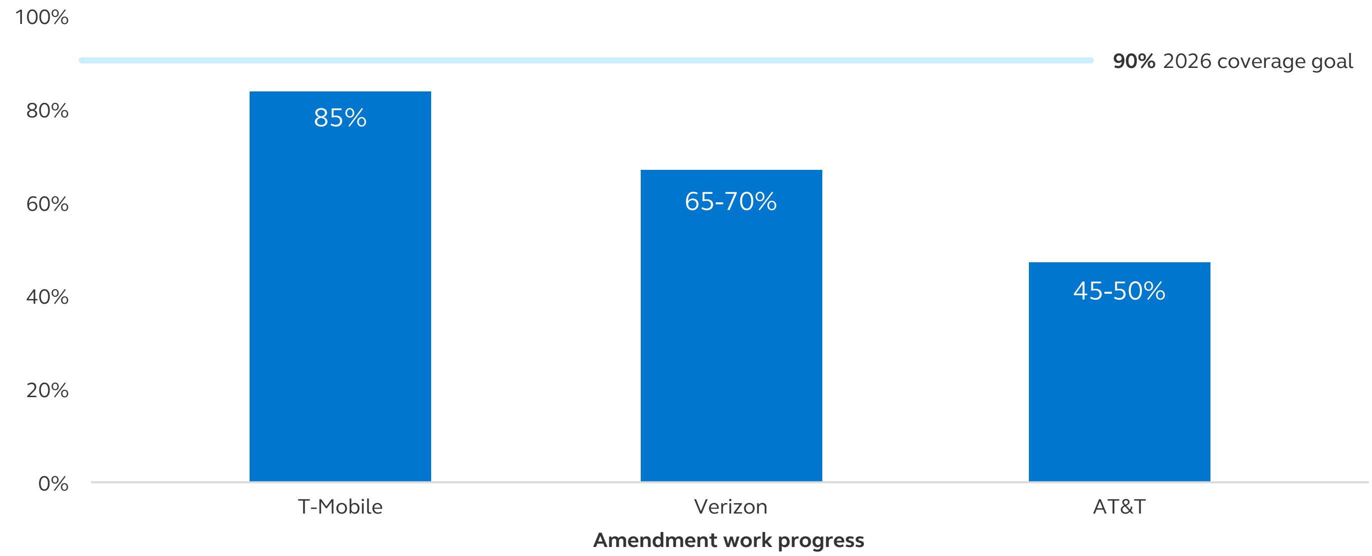
Defensive growth amidst macro uncertainty and potential rate stabilization

Towers continue to stand out as a defensive growth sector amid broader macroeconomic and geopolitical uncertainty. With no direct exposure to tariffs and minimal sensitivity to economic cycles, tower companies offer a rare combination of predictability and growth. Thanks to the use of long-term service agreements, 4-6% top line revenue growth is underpinned with both volume commitments and clear inflation adjustments for the coming years, with scope for upside optionality if activity levels accelerate. As interest rates stabilize and eventually decline, the sector could also benefit disproportionately, given its historically strong inverse correlation with yields and its appeal to investors seeking stable, inflation-resilient returns.

Signs of reaccelerating 5G investment

After a temporary breather in carrier capital expenditures, signs of renewed activity are emerging in the 5G rollout. Historically, wireless buildouts—such as those for 3G and 4G—have unfolded over a decade, beginning with amendment activity[1] and followed by expansion through colocations[2] and new site development. The 5G cycle appears to be following a similar trajectory. Major U.S. carriers have already completed a significant portion of their amendment work (T-Mobile at 85% mid-band[3] on tower sites, Verizon at 65–70%, and AT&T at 45–50%), but with all of them targeting 90% coverage by the end of 2026, the scope for reacceleration is clear.

EXHIBIT 1: U.S. carrier amendment activity progress



As of June 30, 2025. Source: Principal Asset Management. Investment team estimates.

(1) Amendment activity: Modifications or upgrades made to existing cell towers rather than building entirely new ones. These amendments are a key part of network expansion and optimization.

(2) Colocations: The practice of multiple wireless carriers or tenants sharing the same tower infrastructure. Instead of building a new tower, a carrier can install its equipment (like antennas and radios) on an existing tower owned by a tower company or another carrier.

Recent indicators from listed tower companies point to an inflection: American Tower reported a 60% year-over-year increase in application activity (e.g. amendments and/or colocations) in Q1 2025, with colocations now estimated to represent 20% of requests—double the share from the previous year. This marked the fifth consecutive quarter of higher application volumes. SBA Communications echoed this momentum, reporting its best bookings quarter in two years and raising its services revenue guidance by approximately 12%, often considered a leading indicator for future activity. While some of this activity is embedded in existing master lease agreements (MLAs)[4], incremental deployments outside of these agreements represent upside potential. Although the full revenue impact of increased colocation activity is expected to materialize between 2027 and 2029, the economics are compelling: lower volume but significantly higher pricing compared to amendment activity, minimal incremental costs, and reimbursable capex—all of which support strong margin expansion and return on investment.

Upgrading portfolio quality through asset rotation

Over the past several years, the tower sector has shifted from expansion-driven M&A to a more deliberate focus on portfolio optimization through divestitures. This strategic pivot reflects an industry-wide emphasis on enhancing asset quality and operational focus. Between 2023 and 2025, the four major tower companies—Cellnex, American Tower, Crown Castle, and SBA Communications—collectively executed or signed agreements to sell assets for over $12.8 billion. These included high-profile transactions such as Crown Castle's sale of its fiber and small cell business, American Tower's exit from India, and Cellnex's divestitures in Ireland and Austria. Notably, once Crown Castle completes its divestiture program in 2026, it will become a pure-play, U.S.-only tower operator - a significant repositioning that underscores the sector's shift toward specialization and return-driven capital allocation. We think that a cleaner and tighter portfolio of assets, driving accretion to growth, margins and/or returns drives both an upgrade to our perception of quality and strengthens valuation upside. With regards to M&A, we see stricter return criteria as well as greater consideration on factors such as foreign exchange risk in emerging markets. We also note that there is an active pipeline of smaller U.S. tower portfolios, but expect more moderately sized acquisitions, if any, in the coming years.

Wildcard: EchoStar investigation

One wildcard remains the Federal Communications Commission (FCC)'s investigation into EchoStar's compliance with its federal obligations to provide 5G service and meet build out milestones. As part of the growth algorithm for U.S. tower companies, the direction of the investigation and ultimate outcome has the scope to either accelerate or slow down growth for the sector. Importantly, FCC's action should signal to EchoStar that it is unlikely to receive additional extensions as it builds out a nationwide 5G network and, therefore, a decision will need to be made shortly around whether it intends to fulfill build-out obligations or seek to monetize spectrum (which it can do beginning in 2026).

[3] Mid-band spectrum: A crucial part of the wireless frequency range used by cell carriers especially in the rollout of 5G networks, offering a good mix of speed, capacity, coverage, and reliability

[4] Master lease agreements: Comprehensive, long-term contract between a tower company (like American Tower or Crown Castle) and a wireless carrier (like AT&T, Verizon, or T-Mobile). It sets the standard terms and conditions for leasing space on multiple towers, rather than negotiating separate agreements for each site.

Increasing returns to shareholders

Capital allocation strategies are becoming an increasingly important lever for tower companies to enhance shareholder value, particularly in a stabilizing rate environment. In 2025, Cellnex completed its €800 million share buyback program, following the divestiture of its Irish operations, marking a significant milestone in its capital return strategy. We expect this to be promptly followed by an inaugural dividend. Crown Castle has also announced a substantial $3 billion share repurchase program, to be executed following the close of its fiber and small cell business divestitures in 2026. This move accompanies a reduction in its annual dividend, aimed at increasing financial flexibility and focusing capital on its core tower business. SBA Communications was the third tower company to commit to returning capital to shareholders, with a new $1.5 billion buyback authorization approved in April 2025, reflecting confidence in its cash flow outlook and valuation. Meanwhile, American Tower has authorisation for a buyback of $2 billion of common stock under its share repurchase authorization, providing the flexibility to act opportunistically. Collectively, these actions underscore a sector-wide pivot toward more dynamic and shareholder-aligned capital return frameworks.

EXHIBIT 2: Key tower company strategic divestitures and return to shareholders

● Divestitures ● Repurchases

2023

- American Tower exited Mexican fiber business and sold a subsidiary in Poland
- Cellnex sold French tower sites and a 49% stake in its Nordics operations

2024

- American Tower exited India
- Cellnex sold its Austrian business

2025

- SBA Communications announced agreement to exit Colombia
- American Tower sold its fiber assets in South Africa
- Cellnex sold its Irish business
- Cellnex completed share repurchase program
- Crown Castle finalized agreement to sell its fiber business expected to close 2026
- Crown Castle announced share repurchase program expected to be executed following fiber divestiture
- SBA announced share repurchase program
- Potential sale of Cellnex Switzerland and French data center business in summer of 2025

Conclusion

After a period of macroeconomic headwinds and sector-specific challenges, 2025 may represent a pivotal year for tower infrastructure investments in the U.S. and Europe. With interest rates stabilizing, telecom capex rebounding, and companies sharpening their capital allocation strategies, the conditions are aligning for a potential re-rating of the sector. For investors seeking long-term, inflation-resilient cash flows with global growth potential, towers may once again offer a compelling opportunity.

Risk Considerations

Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. Infrastructure issuers may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, operational or other mishaps, tariffs and changes in tax laws, regulatory policies and accounting standards. Foreign securities involve special risks, including currency fluctuations, lower liquidity, political and economic uncertainties and differences in accounting standards. Some international securities may represent small and medium-sized companies, which may be more susceptible to price volatility and may be less liquid than larger companies. Infrastructure companies may be subject to a variety of factors that may adversely affect their business, including high interest costs, high leverage, regulation costs, economic slowdown, surplus capacity, increased competition, lack of fuel availability, and energy conservation policies. Inflation and other economic cycles and conditions are difficult to predict and there Is no guarantee that any inflation mitigation/protection strategy will be successful.

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