R O U N D T A B L E

SPONSORS
ANTIN INFRASTRUCTURE PARTNERS • ARCUS INFRASTRUCTURE PARTNERS • ARDIAN
CUBE INFRASTRUCTURE MANAGERS • INFRACAPITAL • INFRAVIA CAPITAL PARTNERS

# European infra navigates – and survives – a pandemic

*The asset class passes its trial by fire, proving its resilience and leading our six fund managers to look ahead with some optimism, reports Kalliope Gourntis*

A year has passed but much has changed in the relatively short period since our last European fund management roundtable.

At the time, Brexit, trade wars and tepid economic growth were front of mind. Although these continue to cause concern, they certainly seem more mundane than the health crisis the world is still grappling with.

At the time of writing, only a few days after this year's virtual roundtable was held, a number of European countries had imposed second national lockdowns, thereby making the path to economic recovery even more uncertain.

Yet despite the upheaval covid-19 has imposed upon the world and our daily routines, the two mega-trends we identified a year ago for the European market have not only proved resilient; they have thrived during the health crisis.

The first is digital infrastructure. "Digital infrastructure is now considered to be a utility," says Ian Harding, co-managing partner at Arcus Infrastructure Partners. He notes it is essential not only for work but for maintaining contact with family and friends during this time of social distancing.

## Centres of attention

Athanasios Zoulovits, a partner at Paris-based InfraVia Capital Partners, agrees that the increased reliance on platforms such as Zoom and Microsoft Teams has solidified the sector's essential status.

"Just 12 months ago, some people were still debating whether data centres, for example, are infrastructure," he says. "Now, they're seen as a vanilla infrastructure play."

Zoulovits adds that the pandemic has highlighted the sector's merits and characteristics, and that it "has allowed deal activity to accelerate. So, there has been continuous liquidity of capital flowing into the sector and transactions have closed".

One of those transactions occurred in May, when InfraVia agreed to sell its majority stake in UK-based NGD, Europe's largest data centre campus, to US firm Vantage Data Centres.

Infrastructure managers aren't the only ones transacting in the space. A few days after our roundtable, Stonepeak Infrastructure Partners announced it would be teaming up with media consultancy Patriot Media to acquire Astound Broadband for $8.1 billion from private equity firm TPG Capital.

Earlier in the year, Warburg Pincus teamed up with Germany's Deutsche Telekom Capital Partners to acquire a controlling stake in London-based broadband company Community Fibre.

Could all this interest and activity drive up prices? "We have definitely seen valuations increase quite materially," says Herman Deetman, managing director at Infracapital. The

*"We'd be very keen to invest in hydrogen. But it will be some time before the technology can be developed at scale"*

**LAURENT FAYOLLAS**
**Ardian**

*"There is definitely opportunity to deploy capital at attractive returns, but it requires one to be quite selective"*

**SIMON SÖDER**
**Antin Infrastructure Partners**

infrastructure equity investment arm of M&G has been investing in fibre networks since 2014 – "long before many investors saw fibre as mainstream infrastructure" he says.

"We don't think we're yet at a point where we were with airports a year ago," says Deetman. "With the exception of one or two businesses that are getting a bit pricey, in many cases the businesses that have traded are still very strong growth platforms, where in addition to an initial investment, there are significant opportunities for continued build-out, capex and organic growth, as well as smaller, fill-in acquisitions that create the right valuation environment."

Antin Infrastructure Partners also started looking at the sector 10 years ago and made its first investment in fibre in 2015. Simon Söder, a partner at the firm, agrees that although there are more investors looking at digital infrastructure, the need for further investment has also grown. He explains that this means it is still possible for experienced investors to find good opportunities with attractive return potential, provided they have the resources and ability to do the heavy lifting required to create value.

There are many European countries that need to build out their fibre networks "and a lot of telcos have very stretched balance sheets," says Söder. "So, while the number of investors [entering the space has increased] the number of opportunities has also increased."

As for pricing, it varies case by case, he says, noting there is a misconception that 'fibre' is a uniform label: "In practice, there are lots of different business models and risk profiles. There is for example, B2B vs FTTH, metropolitan vs rural, and wholesale vs retail. So, there are a lot of different models which can attract different types of capital and have different valuations.

"There is definitely opportunity to deploy capital at attractive returns, but it requires one to be quite selective and to do a lot of work to assess opportunities with the right characteristics and potential."

Ardian senior managing director Laurent Fayollas agrees that opportunities in the sector need to be considered case by case. For example, in France "if you invest in fibre in rural areas, you're kind of getting monopolistic characteristics, whereas investing in B2B or in the centre of a city is completely different".

"We have proven as an asset class that we can invest in communication infrastructure when other asset classes thought we were taking on too much technology risk or too much business risk overall" says InfraVia's Zoulovits. "We now have a track record of crystallising significant gains and have proven our case. And I think the next decade is going to be even more exciting than the last one."

The conversation shifts to the second infrastructure sub-sector that has

**Simon Söder**

Partner, Antin Infrastructure Partners

Söder, who joined Antin in 2014, has more than 17 years' experience in principal investing, M&A and corporate development, working across the infrastructure, transport, energy, telecoms and industrials sectors. He is a board member of the firm's Fund II portfolio company Eurofiber and of Fund III portfolio companies Lyntia and Sølvtrans. Previously, Söder was senior vice-president in the infrastructure, utilities and renewables team at Macquarie Capital.

**Ian Harding**

Co-managing partner, Arcus Infrastructure Partners

As head of origination and a member of the investment committee, Harding oversees the formulation and execution of investment strategies for the firm he helped co-found in 2009. He has more than 20 years' experience in the origination, financing, ownership and divestment of businesses across a range of infrastructure sectors globally. Prior to the creation of Arcus, Harding worked at Babcock & Brown, Citigroup and NM Rothschild & Sons.

**Laurent Fayollas**

Senior managing director, Ardian

Fayollas has more than 25 years' experience in the infrastructure sector and has been with Ardian since 2005, helping the French firm establish its infrastructure group. He has played a key role in some of Ardian's major transactions and sits on the board of some of its portfolio companies, including Indigo, Luton Airport, HSL Tours-Bordeaux and Kallista. Before joining Ardian, Fayollas worked at CACIB and Crédit Lyonnais in the infrastructure advisory and structured finance divisions.

## Saket Trivedi

Managing director, Cube Infrastructure Managers

Trivedi, who has 19 years' experience in infrastructure M&A, joined Cube IM in February from investment bank Evercore, where he spent 12 years advising clients on transactions across sectors including thermal and renewable power generation, regulated and unregulated utilities, energy services and infrastructure. At Cube IM, he is responsible for transactions in the energy sector and is a member of the investment and asset management committees. Trivedi also sits on the boards of several of the firm's portfolio companies.

## Herman Deetman

Managing director, Infracapital

Deetman joined Infracapital in 2019 and has more than 28 years' experience as financial advisor to companies, governments and investors in the power, utilities, renewables and broader infrastructure sectors. He started his career at Kleinwort Benson before moving on to UBS where he became head of European utilities. He later held similar roles at Deutsche Bank and HSBC. Before joining Infracapital, he was at advisory boutique Aperghis & Co, where he served as senior advisor.

PHOTOGRAPH: MICHA THEINER

## Athanasios Zoulovits

Partner, InfraVia Capital Partners

Zoulovits is responsible for the origination, structuring and execution of European infrastructure transactions. He is a director of several InfraVia portfolio companies, including Mater Private, SAVE and Alkion Terminals. Before joining InfraVia in 2013, he worked at Société Générale CIB and Access Capital Partners, where he accumulated significant experience in real asset principal investing in Asia and the EMEA region, as well as in investment banking across Europe.

fared well – not only despite the current health crisis but because of it. “Renewables and the energy transition will continue as they were pre-pandemic – strong trends that continue to attract investment,” says Saket Trivedi, a managing director at Luxembourg-based Cube Infrastructure Managers.

### The power of net zero

The International Energy Agency said in a November report that new renewable energy capacity in Europe had slowed, year on year, during the first half of 2020. However, it added that the installation pace had accelerated during the second quarter with the easing of lockdowns and movement restrictions. Nevertheless, several countries – including Germany, Italy and the Netherlands – rebounded in May and June, and “expectations are high for the second half of the year”, the agency said.

Aside from slowing new capacity additions, the pandemic has “forced us to think about how we protect against volatility”, Trivedi says. “There are interesting structures that are available today where you have fixed, long-term hedges to cover your debt service, shorter-term rolling hedges to guarantee a minimum equity return and then some merchant piece open to catch the upside.”

Deetman agrees: “In some transactions we looked at – such as pure renewables businesses, valuations were getting quite frothy, driven by investors taking a bold and optimistic view on power prices. I think what we’ve seen in recent months in terms of volatility underscores what most of us already knew – that a pure merchant asset is not an infrastructure investment, and we need to find ways to mitigate risks and reduce volatility in order for a pure renewables business to be an infrastructure asset.”

It is this merchant risk and compressed returns – which, according to Harding, are not even in the high single-digit internal rates of return – that are leading some fund managers to consider investing in other forms of new energy infrastructure. He cites as examples battery storage, electric vehicle charging infrastructure and electrification of transport systems, “where I think you can get higher returns for arguably taking similar risk”.

Although such risk profiles are not yet at a point where they are suited to infrastructure investment, Harding believes that “in the next two to three years you’ll definitely be finding more investors in those nascent spaces and perhaps less so in more mature renewables, unless you’re a very core fund or renewables investor”.

### Beyond renewables

Making risk profiles of other parts of the energy transition attractive to infrastructure investors is something the European Green Deal could accomplish, depending on how it is implemented.

“The Green Deal has brought into the mainstream things that we, in the infrastructure space, have been doing for many years,” says Zoulovits. “Most of us have had ESG policies for a while now, and at InfraVia we have moved even further in our business by adopting the UN’s SDG framework to set specific objectives. Now everyone in asset management is catching up.”

The European Commission finalised the framework last December with the aim of making the region carbon neutral by 2050. Yet it remains unclear how it will be implemented.

Zoulovits is optimistic, noting that “a big component of the funds is coming into areas where the private sector is incapable of investing. That is, we in Europe, at least, are not as good at investing in niche sectors or new technologies before they are proven. A lot of capital is going to go into de-risking hydrogen and that’s a good thing because, at the moment, there are industrial risks that we don’t know how to warehouse within private funds without subsidies”.

He nevertheless maintains that if the European Green Deal channels public funds into areas where private investors are already investing, “then it will be a waste. However, it looks like it’s going to be an accelerator for things that are not mature”. Zoulovits notes that it was public subsidies that helped make wind and solar energy mainstream.

> *“While you can do a lot by remote access, I think there’s no substitution to being physically present with your management teams or with investors”*
>
> **IAN HARDING**
> **Arcus Infrastructure Partners**

> *"The pandemic has forced us to think about how we protect against volatility"*
>
> **SAKET TRIVEDI**
> **Cube Infrastructure Managers**

> *"Just 12 months ago, some people were still debating whether data centres are infrastructure. Now, they're seen as a vanilla infrastructure play"*
>
> **ATHANASIOS ZOULOVITS**
> **InfraVia Capital Partners**

What happens in the meantime, though?

"We'd be very keen to invest in hydrogen," Ardian's Fayollas says. "But it will be some time before the technology can be developed at scale. So, what do we do in the meantime to facilitate the energy transition? Do we complement and balance renewables with coal, as some countries are still doing for part of their energy production? Or do we use interim solutions like gas, for example?

"Maybe this will create more opportunities overall and growing interest in CCGT [combined cycle gas turbines], for example. But it will depend on each country's policy and on the mix of energy they would like to achieve."

It will also mean investing in more complex renewables projects. Zoulovits turns to the public markets to provide examples.

"Look at the valuation of Neoen on the stock market," he says. "Or that of other listed European renewable energy platforms that have moved into providing value-add services directly to energy consumers, enhancing their revenues beyond the selling of green electrons at regulated tariffs, let alone merchant prices. The public market is pointing to strong development skills and industrial IPP business models as winners. Those businesses are a good inspiration for active private infrastructure investors of where value can be created."

Söder agrees that this trend towards more complex projects and greater merchant risk "means you need to find different ways of managing and mitigating that risk, which for active managers working with good management teams is part of our role. And so, in some ways, I think that's a challenge but also an opportunity for infrastructure investors."

## Ground(ed) transport

Although digital and renewables have continued to perform well during the pandemic, one also needs to take stock of transport, 2020's most negatively impacted sub-sector – beginning with airports, which have been a key part of the European infrastructure market.

"There will continue to be an important role for airports," Infracapital's Deetman says. "The key focus for us will be around valuations."

Catalysed by the past six months, Deetman thinks we may see a repricing of airports along with a more disciplined approach when it comes to assessing risks and pricing them in.

"Air travel had 40 years of uninterrupted growth," Zoulovits notes. "That growth has now been interrupted, but it has not been permanently paused."

Toll roads have fared better. "There will be a quick-shot recovery once lockdown is lifted and traffic resumes," Trivedi predicts. Arcus Infrastructure Partners' Harding says part of that

> *"Although transacting remotely can be frustrating and more difficult at times, we have to continue to deploy money, so we are finding smart ways to do that remotely"*
>
> **HERMAN DEETMAN**
> **Infracapital**

recovery will also be facilitated by people preferring "to travel in their own cars rather than using public mass-transit networks".

According to the Royal Automobile Club's report on motoring, published 9 November, 54 percent of the 3,068 UK drivers surveyed considered their cars to be safer for travelling during the pandemic. Reluctance to use public transport was at its highest level in 18 years, the RAC found.

This preference for using one's own car is a factor that Fitch Ratings cited in its most recent report on toll roads as increasing resiliency in the sector. The ratings agency projected that traffic volumes in France would reach pre-covid levels in the fourth quarter of 2022, while Spanish and Italian toll roads would recover during the first quarter of 2023.

However, those projections were made in September and on the assumption that there would not be a second round of national lockdowns.

Still, a number of our participants were optimistic that people would return to pre-covid travel behaviour – to an extent – once a vaccine had been made available and people felt safe.

"While you can do a lot by remote access, I think there's no substitution to being physically present with your management teams or with investors, or doing things in person," Harding says.

## Keep calm and carry on?

Since meeting investors and management teams is such a critical part of what fund managers do, our roundtable participants are well placed to provide examples of how travel restrictions and lockdowns have affected their business activities.

"Initially, there was a pause but in the last few months we have found that investors are quite comfortable interacting in the due diligence process remotely, and that investors continue to have appetite and accept that remote due diligence is the new normal," Deetman says. His firm in February had raised £1 billion ($1.33 billion; €1.12 billion) for Infracapital Greenfield Partners II, which has a final target of £1.25 billion.

Those fundraising this year described similar experiences. Arcus reached a final close on its second European infrastructure fund on €1.22 billion in April. A month later, InfraVia held a first close on €270 million on its infratech-focused Growth Equity Fund, and Antin closed Fund IV on its hard-cap of €6.5 billion in July.

Cube Infrastructure Managers was not fundraising, but it was busy executing transactions.

"Asset deals are relatively easier, but investing [remotely] in platforms and teams is difficult," Trivedi says. "Therefore, in the last nine months, we've focused our attention on bolt-on acquisitions across our portfolio. Those deals are much easier to execute during lockdown because we have teams on the ground, they are less competitive and we are able to find attractive prices and get exclusivity."

The Luxembourg-based firm, in September, announced it had invested €90 million in three telecoms projects in Italy, Spain and the Czech Republic through its Connecting Europe Broadband Fund. "These three projects … will provide fibre access to 700,000-plus households and nearby businesses," it said in a statement.

Ardian, which also was not in the process of raising a fund, was able to complete the acquisition of Italian mobile tower group Inwit. The deal, which was announced in July, closed in October. "It's still possible to invest, but it is a bit more complex," says Fayollas. "You will need to spend more time connecting to people. It's definitely less convenient and easy, but it can be done."

Deetman takes it a step further. "We have to do it," he says. "The market is competitive. There are still plenty of sellers of assets that want to start or continue processes.

"Although transacting remotely can be frustrating and more difficult at times, we have to continue to deploy money, so we are finding smart ways to do that remotely."

LPs also have to continue investing capital and although the pace may slow because of the need to conduct business remotely, activity will continue.

"What we're seeing is that people who have the right track record have the ability to attract the capital," says Zoulovits. "[Fundraising] will be more difficult, will take more time, but the resilience of the asset class has been proven and makes it an appealing proposition." ■