

KEYNOTE INTERVIEW

The power of connectivity



Digital infrastructure is more essential than ever, says [Simon Soder](#), partner at Antin Infrastructure Partners

Q What makes digital infrastructure an attractive investment proposition, right now?

We are currently facing a once-in-a-generation window where a great deal of the digital infrastructure that we all rely on, and that the telecoms industry is built on, needs to be upgraded. The huge amount of capital required to make this happen creates opportunities for experienced investors to support this transformation, which ultimately is driven by the end users' demand for better connectivity.

We expect that demand for better connectivity to continue to grow over the long term, which is one of the attractions from an investment

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perspective. With involvement in this essential infrastructure clearly there also comes responsibility, which is something we take extremely seriously.

Q Where do those opportunities lie?

We see opportunities in each of the commonly defined main sectors: fibre, towers and data centres. We have invested in each of those sectors and continue to see interesting opportunities in all three areas. However, we tend to think less about labels, and more about

the specific dynamics of each investment opportunity on a case-by-case basis, whether they fit neatly into a particular sub-category or not.

There are different market structures in each sector and geography and distinct regulatory frameworks as well. We look at each situation on its own merits and analyse how a particular business model fits within a specific environment.

Having said that, there are common themes in the businesses that we look to invest in. We like to invest in businesses that provide something that is unique or missing.

For example, when it comes to fibre, we prefer to build fibre for customers that lack access to high bandwidth

connectivity in the form they need, rather than somewhere where connectivity is already plentiful with lots of options. That is driven by our mission to invest in infrastructure which provides essential services to the end user.

Q Which countries do you see as offering the most attractive fibre investment environments?

We are active across all of Europe and North America. There is no market we would rule out at this stage. Each is interesting, although you have to approach them in different ways.

Having said that, there are clearly some geographies that have lower existing fibre coverage than others when it comes to fibre to the home. There is still a lot of unmet demand in countries like the UK and Germany, for example, where coverage rates remain in single digits and therefore huge needs remain.

But even in more developed markets such as Spain, it is still possible to find attractive opportunities. Fibre to the home is not yet complete even in those geographies; and in any case, critically, demand for B2B fibre also continues to grow strongly as the number of applications needing high-quality connectivity proliferate. We are seeing this firsthand through our investment in Lyntia in Spain.

Q What about opportunities beyond fibre?

We have made two investments in towers businesses, in France and Spain, and we continue to review opportunities in the space. Europe has a relatively low level of independent tower ownership compared with the US and we expect to see continued dealflow in Europe.

Data centres represent another area of interest. We already have experience in the sector through our portfolio companies, Eurofiber and FirstLight,

Q What ESG considerations need to be taken into account when it comes to digital infrastructure assets?

Above all, I would emphasise that these networks and data centres provide an absolutely essential service that we, as private individuals and businesses, rely on completely today. That fact has become even clearer in recent weeks amid covid-19. Without that connectivity, the difficulties that we are facing today would be even more challenging.

With that growing sense of societal importance comes great responsibility for owners and shareholders. You need to have policies and structures in place to ensure continued service, even in the most extreme circumstances.

Another ESG issue that I would highlight is the usage of energy within data centres. Data centres consume huge amounts of energy and shareholders have the ability to influence how that energy is sourced. With Eurofiber's data centre business, for example, the energy is coming entirely from renewable and green sources.

and we are looking at other opportunities in the sector.

Finally, there are also opportunities to partner with large telcos that may seek to outsource their infrastructure more broadly as well.

Q Which areas of the data centre market represent the best risk/return dynamics?

There are a number of different models and segments, each with their own dynamics and pros and cons. Hyper-scale is clearly one that is displaying a great deal of growth and we expect that to continue. One of the challenges, however, is that no-one has really been through a proper renewal cycle with those contracts and with those customers which needs to be considered.

A second sub-segment involves data centres that act, primarily, as connectivity hubs. These are generally located in large metro areas where sometimes hundreds of connectivity providers may be connecting with each other. I would say, though, that valuations in this space can be high.

Then you have retail co-location, of course, which we also find interesting. That is the kind of business we have developed with Eurofiber. In that space, it is a question of analysing the supply/demand dynamic at the local level to

ensure you are entering into an attractive proposition.

Finally, it is worth mentioning edge data centres. That segment is at an earlier stage of development, but we expect it to grow over time.

Q How would you describe competitive dynamics across digital infrastructure more broadly?

We have been active in this space for over a decade now and there are definitely more players looking at opportunities today. There is more capital being allocated to the sector and so, in that sense, there is more competition. Having said that, there is also a greater need for investment because bandwidth demand has continued to grow as well. In addition, the large telcos are more open to entering into partnerships today than they once were.

I would add, however, that selectivity is crucial. We have invested in four fibre businesses in the past few years but have done due diligence on at least 10x that number. You need to do lots of work to make sure you are entering into those opportunities where your experience, your network, your capabilities and your relationships mean you can look at a business in a different way in order to add real value.

Q What is your approach to asset management?

Would you say that you are at the hands-on end of the scale?

Yes, I think that is fair. But I would also add that we prefer to invest in businesses that we think have strong management teams in themselves. That has absolutely been the case in the four fibre investments that we have completed to date. You may be buying an asset, but it is also critical to have a strong day-to-day management team that is able to run that asset well.

In addition to that, we have experienced former industry execs as non-executive directors on the boards of all our digital infrastructure portfolio companies. These are typically people who have spent their whole careers working in these industries, often as CEOs. They are a really important sounding board for our management teams, as well as for us as investors.

Thirdly, by now, Antin has its own strong, in-house expertise within the team, which includes capability and expertise around business models, strategies and go-to-market approaches, but also, importantly, customer relationships.

Across Europe, some key customers and partners are touching on fibre networks in multiple markets and so having strong relationships at a very senior level in those large telcos is hugely advantageous and brings real value to the asset management element of what we do.

Finally, I would add that we have now got a very strong track record in raising suitable financing for these digital businesses as well. That is absolutely key, given the level of growth that exists in this sector and the level of capex that tends to be required to continue to develop the networks.

It is vital, therefore, that our assets get the finance they need to support

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“Asset utilisation will, on average, be higher if multiple service providers use the infrastructure than if each service provider builds its own infrastructure”

growth and that that growth is funded in an efficient way. It isn't about taking a one-size-fits-all approach but rather about ensuring you have a bespoke financing structure in place that works for that specific business and business plan.

Q What do you believe the future holds for digital infrastructure investment?

We believe that infrastructure investors such as us will continue to play a really important role in this space. There will be a huge amount of investment required to renew and develop telecoms and digital infrastructure in the coming decades.

And this is taking place at a time when a lot of operators and service providers in Europe have significant additional investment needs and stretched balance sheets, which means they increasingly see the benefit of partnering with external sources of capital.

I think it could also be argued, on a societal level, that it is more efficient, in many cases, if infrastructure is owned independently. Asset utilisation will, on average, be higher if multiple service providers use the infrastructure than if each service provider builds its own infrastructure, so there is an economic case for independent ownership.

If, for example, each operator in the telecoms space built their own fibre network, that would be an inefficient use of capital, with multiple lines going to each premises and a lot of unnecessary disturbance as roads are dug up more than once.

I think that principle, combined with the fact that so much investment is required, means there will be a very important role for investors focused on the infrastructure segment of the digital space, and that I would say that role will continue to grow in importance going forward. ■