

# KEYNOTE INTERVIEW

## A shifting space



*Digital infrastructure opportunities are continually evolving and are being driven by the ever-increasing flow of data, says Antin Infrastructure's **Maximilian Lindner***

As digitalisation continues apace across entire economies, demand for digital infrastructure is only increasing across the globe. However, different parts of the digital infrastructure space have developed at varying speeds across markets, while regulatory frameworks – both current and historical – can impact the attractiveness of specific sub-sectors, while also adding complexity to the picture.

We spoke to Maximilian Lindner, partner at Antin Infrastructure Partners, to discuss where the firm sees attractive opportunities in a rapidly changing landscape. Lindner explains what it takes to create a resilient portfolio at a time of high inflation and therefore increasing costs, where digitalisation will create the most growth and what it will mean for the broader infrastructure investment industry.

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**Q Where do you see the most interesting opportunities in digital infrastructure and why?**

We continue to see a wide range of opportunities in this space, although the area with the highest dealflow currently is data centres. This is especially the case in Europe, where this segment is still developing, unlike fibre and towers, which are relatively more mature.

Data centres offer a multitude of opportunities and business models ranging from co-location to more integrated approaches where co-location, cloud and connectivity services are combined. We are seeing some

regional and national players emerge across Europe as well as international providers.

In 2021, for example, we invested in Pulsant, a UK-based data centre platform that covers all regions across the UK from Edinburgh to south of London and offers co-location, cloud and edge data centre services. There are also attractive potential investments in edge infrastructure and with hyperscalers, which are looking to expand beyond their traditional FLAP focus into tier 2 and 3 cities such as Berlin or Madrid.

In the US, we see a lot of opportunity in fibre-to-the-home (FTTH) because the market is around five years behind Europe in the push to upgrade legacy broadband networks. We have invested in a number of FTTH platforms in Europe, such as in the UK,

Spain, Belgium and Germany, where there is a heterogeneity of regulations and market environments. This brings us a wealth of understanding of key value-creation levers and operational experience in scaling FTTH platforms which we can bring to the US.

And finally, there is a lot of potential in niche plays, such as the digital outdoor media infrastructure space. We acquired a business in this segment in 2022, Wildstone, which manages a portfolio of over 5,000 digital advertising billboards in the UK and Europe. This is just one of the examples of interesting digital opportunities in niches beyond the more typical towers, data centres and fibre infrastructure.

### Q How are regulatory issues affecting the digital infrastructure space?

The regulatory frameworks companies are operating in are very important and can make a big difference to an investment outcome. It is critical that investors understand how different frameworks have evolved to the status quo and are expected to develop in the future. This is especially the case in Europe – even though regulation is harmonised on a European level, regulatory implementation varies from country-to-country.

Spain and Germany are good examples of how this can affect markets on the ground. Spain has a very high FTTH penetration – it has around 90 percent coverage. That is because the incumbent, Telefónica, has historically deployed their network in ducts to which an open access regulation has been put in place. This allows alternative operators to benefit from existing infrastructure in their fibre deployment. Investment amounts are further reduced by the wide acceptance and use

### Q How would you say the opportunity set in digital infrastructure has changed over the years?

Some of the digital infrastructure sectors have matured, while new areas have emerged. If we go back 15 to 20 years, when digital infrastructure opportunities first emerged, these were driven by an explosion of data traffic across fixed and mobile networks. The first wave of investment here was in towers.

In 2011, we invested in Spanish business Axi3n and in French company FPS in 2012 with a focus of growing their number of locations and increasing the average number of tenants per tower. We also evolved their business models to include rooftops and moved into distributed antennae systems. Today, the tower segment has moved firmly into the core infrastructure space and we have seen the emergence of large, international tower companies. This is the most mature segment of digital infrastructure.

The next wave was fibre as infrastructure. The B2B fibre space emerged in 2010 to 2015 and has moved from being a value-add area – as it was when we invested in Eurofiber in 2015 – to also becoming a core infrastructure segment over the past two to three years due to the attraction of companies with long term visibility on strong cash generation and robust downside protection.

The FTTH sector came a little later and we have seen strong investment levels here over the past five years. Europe now has many countries with very high coverage, including Spain. There are some countries trailing a little, such as the UK and Germany, but we are now seeing smaller and medium-sized alternative operators emerge and incumbent operators accelerating their FTTH roll out programs.

In Europe, the FTTH story is primarily about execution now, while in the US, there are still new opportunities and deals as the market catches up. Meanwhile in data centres, Europe is still behind the US and Asia and there is a lot of strong dealflow.



of aerial deployment.

In Germany, fibre penetration is only between 10 and 15 percent because Deutsche Telekom has historically often not used ducts in their network build out and aerial deployment isn't favoured or allowed. In combination with complex and lengthy permitting processes, this has led to the building cost for FTTH of around 10x that of Spain. This demonstrates the impact of past and existing regulation on the viability of infrastructure projects in different markets.

We are seeing some changes in the US as a result of regulation and subsidies – and many of these are positive. The Infrastructure Investment and Jobs Act in particular is directing \$65 billion towards the expansion of high-speed internet access to rural and underserved populations across the US. This demonstrates how government intervention can push investment strongly towards a specific niche. We invested in FTTH business Empire Access in 2022, which will benefit from the Act and help to upgrade rural networks and those in tier two and three cities.

### **Q What are the main challenges for digital infrastructure investors?**

There is more complexity in the space than might be initially apparent – the regulatory issues I previously mentioned are one example of this. Cutting through that complexity requires deep industry knowledge that you can access both in-house and through external advisors.

Over the past few years, it has become more apparent how important it is to understand how to run and optimise digital infrastructure assets – these are not passive investments and you need to be actively creating value to generate the kind of returns that fund investors expect from this space.

*“We are very positive on the market and its continued growth potential”*

In-house capabilities and capacity to execute well is therefore vital – and this is even more so today, given the more complex macro picture.

### **Q So how is the broader macro picture affecting the digital infrastructure space?**

The digital infrastructure market has been affected to some extent, but this varies by business model and subsector. For example, open access and wholesale business models offer significant protection both on the downside and in the current inflationary environment – these are models built on long-term commercial contracts with high-quality clients. We have a preference for these types of models over integrated and retail business models.

The macro environment is also having an impact on infrastructure investments with a greenfield element because of increased construction and financing costs. Businesses that are able to pass these higher costs onto customers will clearly do best in these market conditions.

As a firm, we have been consistent in the way we approach the market and this is serving us well. We apply a

risk profile test when screening investments and throughout the investment process. One element we are looking for as part of the test is ensuring there is an inflation linkage. As a result, our portfolio continues to be relatively well protected despite the inflationary environment.

It is also critical to ensure you are executing well and delivering value – that is always important but becomes more so in more challenging times – and for that, you need to be investing in high-quality platforms run by high-quality management teams. These are the investments that are best positioned to outperform and deliver attractive returns.

### **Q How do you see the digital infrastructure market developing over the medium to long term?**

We are very positive on the market and its growth potential – it will continue to benefit from strong underlying growth stemming from digitalisation. The pandemic was the catalyst for some areas, such as healthcare and education, to digitalise, while in other areas of the economy, it accelerated it. This shift to digital will continue to require high-quality infrastructure to support it. So, while we may see some slowdown in the sector's growth over the short term in the current, more challenging, macro environment, we will not see a reduction in the market size.

Over the medium to longer term, new business models will emerge to take advantage of growth areas, and the roll-out of 5G – and then 6G – will support the development of the Internet of Things as the spectrum for digital expands and new applications emerge for fibre networks. The progress of low orbit satellites will also increase the digitalisation and connectivity of other infrastructure assets and this will shape the overall industry. ■