KEYNOTE INTERVIEW

Private capital's transformational role

We are in the middle of a once-in-a-generation opportunity to update the world's telecommunications infrastructure, says Antin partner Simon Söder

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Q What makes digital infrastructure such an exciting space, right now?
After a year of widespread lockdowns and remote working, we all know how heavily telecommunications infrastructure is relied upon. There is the chance to support a transformation that will result in better connectivity for the end user – both private individuals and enterprises. It will take a huge amount of capital to make that happen, which means there is a role for experienced investors with deeply ingrained expertise in the space

Q Fibre is clearly fundamental to that transformation. What are the key trends driving that industry?
We're big investors in the fibre space, having invested in four separate businesses in that sector. We continue to see a great deal of demand from end users and, therefore, a lot of opportunity for investment. Different countries within Europe are all at different stages of development. Interestingly, some of the biggest markets, including the UK and Germany, are still at a relatively early stage in their fibre journey, so there's clearly a strong need for capital to support that. And the demand we see is for a wide range of use cases.

We see demand for building out fibre-to-the-home networks, providing connectivity to private individuals. The past year has obviously reinforced the importance of that connectivity, given the prevalence of remote working. But we also see continued, strong demand from enterprises, particularly as more businesses are storing their data in the cloud. That effectively means storing data in data centres, and to do that you need the connectivity to be able to upload and download information effectively and at speed, which is a key driver for businesses seeking high-quality fibre connections to their premises.

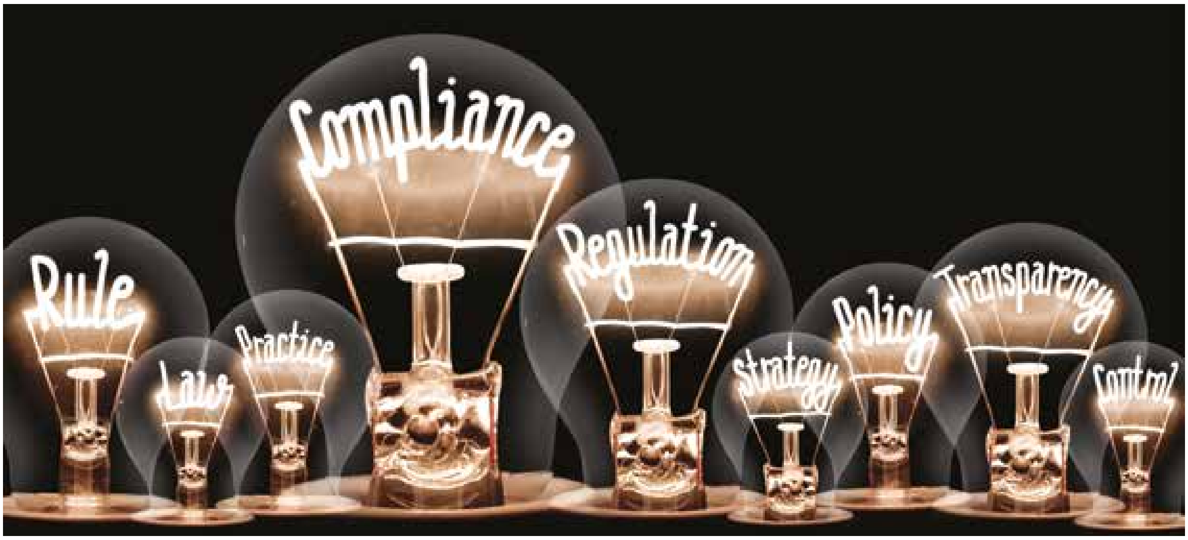
Another use case is towers. We're all using more data on our phones, and fibre is needed to enable mobile networks to cope with that. That situation will only intensify with the roll out of 5G, which will support bigger data volumes, involve more antennae and, therefore, more need for fibre.

Q What about investment in towers and data centres themselves?

We see opportunities right across the data centre space, including large facilities for hyperscale customers – Google, Amazon and Netflix, for example. But we also see opportunities for data centres supporting smaller companies as they transition from on-premises IT infrastructure to the cloud. The other emerging trend is people needing, or wanting, to store data closer and closer to the end user – the so-called 'edge'.

We're looking for unmet needs in each of these markets. Whether we are investing in fibre, towers or data centres, we always take a very local approach. We favour building and

"We have a responsibility to manage these assets well to ensure we continue to support society"



Q How do you approach the regulatory risk inherent in this sector?

Regulatory risk is something we spend a great deal of time analysing and understanding.

We often try to meet with the regulator so that we can ensure an open dialogue and understand what that regulator's objectives really are. We always make sure that the regulatory framework is one that we can operate within, but equally, we often find that we are, in fact, aligned with what the regulator is trying to achieve.

In many cases, the regulator is focused on creating an alternative to the incumbent that has historically tended to be dominant in a lot of markets, and which often may have been slow to invest in infrastructure upgrades. In those situations, the alignment is clear and the regulator is highly supportive.

Then, of course, we also take legal advice to understand the detail and specifics of each regulatory framework. We also take steps to ensure we fully understand the commercial environment because, for example, if market consolidation occurs, that can affect not just the commercial landscape but also the regulatory landscape.

Regulatory risk needs to be viewed from all angles – political objectives, legal frameworks, as well as the commercial backdrop. If we can't get comfortable in any one of these areas, we simply don't invest. But, in reality, we've often been able to find businesses that are highly aligned with what the regulator is trying to achieve and, therefore, which operate either within a largely unregulated setting or within a setting where the regulator is supportive of what we are doing.

investing in assets that are meeting unmet needs, or needs that we believe will be unmet tomorrow, rather than building another network or data centre where one already exists.

Q The digital space has seen real tailwinds due to the pandemic. What impact has that had on competition and pricing of assets?

We have been active in this space now for well over a decade. We've invested in six digital infrastructure assets and done due diligence on at least 10 times that number. And while it's true that a growing number of players have shown interest in this sector over time, it hasn't happened overnight. This past year has reinforced the essential nature of these assets, but there hasn't been a sudden surge in competition. It has occurred gradually over the past three or four years and it's not something that overly concerns us.

We benefit from having a great deal of experience in the sector, as well as strong relationships with the big telcos. There are lots of opportunities to partner with those telcos, either by jointly building a network with them or having them as a customer on our own network. Those relationships, and that trust, can only be developed over time, as can the understanding of how to grow these businesses going forward. After all, it's not just about investing in existing assets; it's about adding value and continuing to grow those assets, often over many years.

We focus our attention on areas where we have a strong conviction that we're better placed to deliver that growth than others and we're happy to walk away from deals if that's not the case. And while a growing number of investors have entered this space, the supply of opportunities has also expanded. The large telcos realise they need to upgrade their infrastructure, but at the same time, their balance sheets are constrained. That means there's more appetite for partnering with private capital. Selectivity is key, but there are more than enough opportunities to go around.

"There is the chance to support a transformation that will result in better connectivity for the end user"

Q How would you describe LP appetite for digital infrastructure? And what are they looking for in a manager?

Undoubtedly, there is a great deal of interest in the space. Investor appetite has grown substantially over time as they have come to understand the dynamics of the sector better.

In terms of what investors are looking for, they often want managers with a track record of delivering value, because prices are inarguably high and so an active value creation approach is key.

Furthermore, the majority of assets in this industry are highly operational. Building out fibre networks to millions of homes is very exciting, but very operationally intensive and so it takes a lot of hands-on involvement to generate that ultimate return. That hands-on involvement covers everything from accessing cost-efficient and appropriately structured financing, to recruiting and retaining strong management teams.

Finally, I would point to the importance of being well resourced and highly connected in the sector. When I say connected, I mean to customers, contractors, regulators, finance providers and key stakeholders in the market.

Q What does the future hold for digital infrastructure and for the role of infrastructure managers within that?

Infrastructure investors, like ourselves, will continue to play a very important role in this space, given the huge amount of investment required. The traditional telcos are capital constrained in their ability to solve the issues that the industry is facing, so there's a real opportunity for private capital, and in particular, experienced private capital, to step in and provide support.

There is also an efficiency argument in favour of independent ownership of infrastructure. It is extremely inefficient for three or four different players to build their own networks, towers or data centres on top of one another, but if just one of those players owns the network, tower or data centre, its competitors are often reluctant to become customers. It makes sense, then, for ownership to reside in independent hands. It means the big users are sharing the investment burden.

All in all, we expect the involvement of infrastructure investors to grow. We see that as an opportunity, but also as a responsibility. We have a responsibility to manage these assets well to ensure we continue to support society. In that sense, the last year has been a great test of our assets.

From day one of the pandemic, all the networks we own and operate were able to continue to deliver the services which we've all come to rely on so heavily in our businesses and everyday lives. This is testament to the level of investments made in those businesses, and also to the work and preparedness of the management teams running the networks. ■