PEI Alternative Insight

Issue 57 | November 2014 | infrastructureinvestor.com

FOR THE WORLD'S INFRASTRUCTURE MARKETS

INFRASTRUCTURE INVESTOR

KEYNOTE

PASSING THE 'INFRA TEST'

HOW ANTIN DECIDES WHAT MAKES THE CUT

Keynote

Antin Infrastructure Partners

PHOTOGRAPHY BY PETER SEARLE

The disciplined entrepreneurs

When Antin Infrastructure Partners launched in 2007, it was a first-timer looking to raise a private equity-style fund in the midst of the Financial Crisis. Four months after closing their second vehicle on €2bn, managing partners Alain Rauscher and Mark Crosbie tell Matthieu Favas why a widening pool of investors have been won over to the firm's hands-on, yet measured strategy

Tucked away from the hustle and bustle of busy Regent Street, the London office of Antin Infrastructure Partners is like a haven of peace. In stark contrast to the hurried excitement of nearby shoppers, the firm's UK base impresses with its calm and studious, yet cordial atmosphere.

As becomes evident after a tour of the premises, they also reflect the personalities of Alain Rauscher and Mark Crosbie, Antin's managing partners. Geometric patterns on the reception walls embody the notions of rigour and alignment they seek to convey; the décor's overall lack of flamboyance, in subdued tones of brown and grey, seemingly match the duo's informal, down-to-business attitude.

It is apparent why the pair decided to arrange the interview in London rather than Paris: in a low-key way, the office effectively showcases the firm's plural identity and expanding ambitions. For one, the office is brand new – bigger than the three that preceded it and centrally located. And, as Rauscher explains, it is not intended to be a mere outpost of Antin in the UK market – but rather one of its two headquarters, a fully-fledged base from which it can talk to investors and explore deal opportunities in both the UK and continental Europe.

Regularly introduced as a French firm, Antin is in fact formed of two management companies – one in Paris and one in London. "We started with a Paris office because we wanted to send a strong signal that the firm was committed to investing in the Eurozone. But as fundraising for our second fund gathered momentum we wanted to have access to high-quality resources and a larger pool of talents and this led us to open an office in London," says Rauscher, who is also the firm's founder and chief executive.

> "Investor relations is not something you do once a cycle, when doing fundraising. In many cases LPs who decided to back Fund II were people we'd had a dialogue with for the last five or six years" **Crosbie**

The office is designed to welcome commuters from Paris on a daily basis, with a number of hot desks allocated to visitors and two-day trips part of most of the senior staff's weekly routine. We joke that Antin will soon feature on the VIP list of Eurostar, the high-speed train linking both cities. "People can choose whether to be based in Paris or London. We are very flexible as the team works seamlessly between these two offices," explains Crosbie.

On a more figurative level, the office's vocation and location also have something to say about the firm's investment strategy: a tailored, resource-intensive approach focused on sourcing assets away from the crowded, expensive high street.

CONVERTED TRY

For Rauscher, infrastructure investors come in two radically different types. The first strand focuses on core infrastructure, which he says is largely about regulated assets and yields lower returns. "This type of strategy is now the purpose of direct investors, who rightly or wrongly think investing in pipelines or utilities is a 'no brainer'."

At the higher-risk end of the spectrum are strategies more akin to private equity, where investors take a much more active, "value-added" approach to asset management with a view to reaping both significant yield and capital gains. This is the method chosen by Antin – and one that, according to Rauscher, has been vindicated by the success of the firm's latest fundraising efforts.

Last June, the team announced the final closing of its second vehicle on its hard cap of €2 billion, €500 million above its initial target. The fund saw a re-up rate of 71 percent, and is almost twice the size of its predecessor, which closed in 2010 on €1.1 billion. Fund II is also the second-largest vehicle targeting European infrastructure assets raised since the Financial Crisis.

Crosbie explains that this success owes a lot to the firm's unrelenting focus on investor relations (IR). More than 60 limited partners (LPs) committed this time round, compared with 35 in Antin's previous vehicle. "Investor relations is not something you do once a cycle, when doing fundraising. In many cases LPs who decided to back Fund II were people we'd had a dialogue with for the last five or six years."

> "In today's market, you can't meet a high target return by buying well and selling at two or three times the price" **Rauscher**

This continuous IR push has also helped the firm diversify its investor base. While Fund I counted a large proportion of French LPs, Crosbie says the second vehicle managed to enlist support from other parts of Europe (51 percent of the money raised) as well as North America, Australia and Asia (25 percent).

Rauscher adds that some of them already had the firm on the radar when the company knocked on their door in 2009-2010 but were not allowed to commit to a debut fund. On a number of occasions the team was told to come back after they'd had their first try; Antin, meanwhile, maintained the contact. "Putting on ourselves the extra burden of thinking what would happen in our second fund, five or six years ago when fundraising of Fund I was not certain at all, was something very bold but it paid off when we raised our second fund."

Both react with amusement when asks how much they could have raised without imposing on themselves a hard cap, and, without risking mention of a figure, the answer is that they could indeed have garnered more capital but decided not to. "Once we'd reached the hard cap we were keen to get the team's focus back on investing," Crosbie says.

NOT ON THE HIGH STREET

Rauscher points out that two billion is barely more than the equity jointly deployed by Fund I and the vehicle's co-investors. During the first couple of years of its maiden fundraising, the firm was forced to take minority positions: it took three instalments to build the interest it sold in UK rolling stock business Porterbrook last month. It has since strived to acquire only majority stakes. "In that sense we haven't doubled our investing target. It remains roughly the same as for Fund I but we're now committing more capital per investment."

The final amount, the team figured out, was also the maximum the firm could realistically invest while keeping to the strategy it had initially ascribed itself. "A key concern for investors is that you don't raise too big a fund. Because then you may not be able to deploy the capital quickly and well enough," Rauscher says.

This hints at what they believe was another major pull for Fund II: the performance of its elder brother. The initial mandate of the firm's maiden vehicle was to deliver mid-teen IRRs, a minimum of 5 percent dividend yield and a 2x money multiple. Now in year seven, Crosbie has little doubt the fund will meet its objectives. "There is actually a good chance we will be exceeding them."

That's largely down to the team's investment approach, according to Rauscher – and more specifically, to its ability to source proprietary deals. He highlights that 10 out of the 11 transactions closed so far by the firm happened outside the auction circuit, arising instead from "knocking on the door of corporates to persuade them to sell assets they're not selling".

Sourcing such opportunities is rather resource-intensive, Rauscher says. But once the process is started, proprietary deals are executed with more certainty than competitive transactions – an important feature when it comes to convincing investors you have a robust pipeline. Their complexity also comes with the prospect of better returns, Crosbie argues, at a time when a glut of capital has pushed core infrastructure returns from between 11 and 12 percent down to single digits.

"The point when you get very demanding questions from LPs, I suspect, is if you're

Euroports: safe harbour for Fund I

into that market of chasing 7-8 percent on auctioned assets alongside a wall of capital. If you're generating mid-teen returns or better via proprietary deals the conversation with LPs about fees and the like is a very short one."

The firm has three more years to realise its Fund I assets which, after the sale of its Porterbrook stake, will amount to eight. "We do have other potential exits in mind at the moment but we haven't pushed the button on anything," Crosbie comments.

SHOPPING LIST

Meanwhile the pair reckon their pipeline for Fund II is as strong as it's ever been. The vehicle sealed its first deal in June, when it paid £562 million (€715 million; $906 million) for CATS, a gas pipeline in the UK North Sea. Last September, it followed up by acquiring Roadchef, a UK roadside service business, for £153 million. The fund is already 31 percent deployed and although it still has another four years to spend the balance, Antin's chiefs don't think it will take that long.

Yet they say deploying capital is "not a horse race", and explain that, after Fund II's first close, they were questioned by investors as to why they hadn't yet bought any asset. "Trust us," they replied, "we will only deploy the capital when the time is good and the price is right." As it turns out, the CATS transaction was announced just days after Fund II's fourth and final close. "We didn't use our first deal to get people to commit to the fund."

> "Core infrastructure strategies are now the purpose of direct investors, who rightly or wrongly think that investing in regulated assets such as pipelines or utilities is a no brainer" **Rauscher**

The vehicle follows the exact same strategy as its predecessor, now invested in a portfolio spanning renewables, telecoms, motorways, ports, rolling stock and crematoria in markets including Italy, Spain, France, Croatia and the UK. But it may well involve new industries and geographies. "We will be diversifying into sectors and countries not currently represented by the first generation of transactions."

The firm can afford this flexibility owing to Antin's original definition of what constitutes infrastructure – less a bundle of heterogeneous sectors than a particular risk profile. Crosbie goes into more detail: infrastructure implies the existence of physical assets catering for an essential need, with little competition and non-bypassable, producing predictable revenues and strong, stable cash flows. These, he says, are the boxes to tick when potential investments go through due diligence.

That's why not every sector conventionally defined as infrastructure automatically passes the firm's "infra test". Rauscher notes that airports, for instance, can generate highly volatile revenues and profits, especially if they rely heavily on low-cost carriers. The firm, which hasn't yet invested in the sector, would as such consider it on a case-by-case basis. Crosbie is similarly cautious on renewables, which he says live in a "very uncertain world" due to the scaling down of subsidies in a number of EU countries. "It's pretty unlikely we will invest in renewables in Fund II."

This approach has sometimes led Antin to deploy money in more exotic sectors. Asked to justify why exactly Westerleigh Group – the UK's second-largest independent operator of crematoria, acquired by the firm in 2013 – and Roadchef should be considered as infrastructure, Crosbie doesn't flinch: crematoria are an essential service in the UK, he says, where 75 percent of the people who die are cremated. They also can't really be subject to competition within their area of catchment, due to strict planning laws. And they have very predictable cash flows (as opposed to funeral businesses, subject to much higher competition), documented by tons of public data.

Westerleigh: the UK's second-largest crematorium operator

CATS: first deal in the pipe for Fund II

He applies the same reasoning to motorway services areas (MSAs). They are the only place where UK drivers can stop to have a break; existing planning laws mean no new ones are likely to be built. Data shows most people who stop there end up making a purchase, meaning that MSAs don't exhibit the same revenue sensitivity as conventional retail. And the sector is set to capitalise on healthy, long-term demographic growth. "The UK's three MSAs have been incredibly resilient during the recession," he notes.

The argument seems to stack up, but do LPs really get the message? "Investors love those assets," replies Rauscher. "They understand that at some point to make money you have to be smart, take some measured risk, and work hard on the assets. In today's market, you can't meet a high target return by buying well and selling at two or three times the price."

CULTURAL CAPITAL

Of course there are some challenges. But for the managing duo, these are more internal than external.

"We've been very careful since inception to create a particular culture here, around the idea of true partnership, entrepreneurial spirit, accountability and so on. As we grow the business the key challenge is to keep that spirit going," Crosbie says. The team at Antin now counts 19 nationalities, and is projected to grow from 36 staff today to between 45 and 50 within the next two years. It is headed by a total of nine partners – more than most funds of similar size, Rauscher observes, which typically have about three of them.

He explains that, while upon its launch as an independent entity, Antin was sponsored by BNP Paribas, its management team had majority control of the company from day one. "This enabled us to attract an amazing group of talents who joined an entrepreneurial project. They didn't join a subsidiary of a large bank – they joined a start-up. The enthusiasm associated with these people was critical and we as managing partners at Antin should remind everybody that it's fantastic to create a business."

> "If you're generating mid-teen returns or better via proprietary deals the conversation with LPs about fees will be a very short one"
> **Crosbie**

Success, he goes on, will also depend on the team's ability to make savvy investment decisions – a task that, in a bigger company, requires additional oversight. "Keeping tight control and investment discipline is another key challenge. As the team grows larger more and more deal opportunities come up and we work hard not to ever get carried away." Maintaining the capability to generate proprietary deal flow is also crucial, adds Crosbie – although he reckons this is becoming gradually easier as Antin starts to be known and trusted as a potential counterparty.

In true entrepreneurial fashion, the two men are already thinking about the next step. "I am in Paris this week to meet prospective investors. Neither of them has existing commitments to long-term funds but I'm confident if we keep talking to them we'll get them to back us for Fund III," Crosbie says. Would such a fund be larger than Fund II? Too early to tell, he replies – the time to really assess that is when the firm will have an idea of the pipeline it has in hand at that point. "It's not just a question of continuing to want to be bigger."

Succession is also on the MDs' radar – even though they don't seem in a rush to retire anytime soon. "We want this business to be very successful beyond ourselves, even though we are extremely happy and in very good shape now," says Rauscher. "So we constantly assess whether our top people have the capabilities, guts and integrity to make us confident that, at some point, we can give them the keys of the business." ■

Antin
Infrastructure
Partners

Antin Infrastructure Partners, S.A.S
374 rue Saint-Honoré
75001 Paris
France

+33 (0)1 70 08 13 00

Sébastien Lecaudey - Investor Relations
+33 (0)1 70 08 13 20