

Bridging the digital divide

Henri Piganeau and **Izzet Güney**, of Cube Infrastructure Managers' Connecting Europe Broadband Fund, highlight the opportunity presented by fibre optic roll-out in European rural areas

Q What are the origins of the Connecting Europe Broadband Fund?

IG: The genesis of the Connecting Europe Broadband Fund (CEBF) was the European Commission's vision of eradicating the digital divide that affects rural and semi-densely populated areas throughout the European Union. This is not the first time that the Commission, along with some of the other public institutions that are part of our investor base, has attempted to tackle this problem. But, this time, it has taken a different approach. The governance of CEBF is akin to any private equity vehicle and we are bringing private investors on board as LPs.

HP: CEBF has been created to foster the emergence of alternative open-access networks sponsored by local entrepreneurs. Traditional telcos have their role to play in deploying fibre networks, but they are usually reluctant to open their networks to competitors. As a consequence, we usually see overbuild in dense areas and no network in rural areas. A shared network is the answer. Such an initiative can become an attractive platform for investors to finance the deployment of new fibre networks to provide third-party access services to all interested telcos.

Q What makes fibre roll-out such an exciting investment proposition for these private investors?

HP: We are trying to promote the concept of an independent open-access network. That means the operators, our portfolio companies, will own the network, but their

subscribers won't be the end users, those will be the telecoms operators such as Deutsche Telekom, Vodafone and Orange. These telcos will buy access from our network and then sell it to their retail customers.

IG: That is exciting because this is very much an untapped market. In many European countries, there is still a huge amount of progress required in fibre roll-out, in general. On top of that, we are not



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looking at downtown Paris, for example; we are looking at rural and semi-dense areas. The first players who come to market with a fibre network in these regions will be creating a virtual monopoly. No-one is going to waste money building a redundant second network.

The financial model is very simple: telcos that want access can either lease our space or build their own network. Leasing is always going to be cheaper. This is why European fibre roll-out is an exciting proposition for investors.

Q Are other infrastructure funds or independent network operators looking to access this opportunity as well?

IG: Rolling out broadband networks in rural areas requires a detailed understanding of technological advancement and is not cheap. The J-curve can be very steep. No traditional infrastructure fund is going to be interested in getting involved right at the start as early-stage permitting requires the support of local public authorities. Usually, a traditional infra fund cannot wait that long for a network to start throwing off cash. Independent network operators such as Gigaclear or Deutsche Glasfaser are going to concentrate on the more densely populated areas, where it is less expensive to deploy a network. With so much still to do, particularly in a country like Germany, for them that is always going to make sense.

Q How does CEBF fit with the existing Cube strategy which also encompasses telecoms?

HP: Cube Infrastructure Fund II, our brownfield infrastructure fund, invests in

brownfield transport, energy and telecoms, while CEBF is investing in early-stage greenfield broadband projects.

CEBF gets involved at the beginning and aims to bring a project to the point where a brownfield fund can come in to grow it to the next stage. CEBF's investments are managed by an investment team led by Izzet which is 100 percent dedicated to CEBF. As a result, CEBF and Cube II are able to address all parts of the European telecom fibre market.

Q What are the biggest challenges you face in this market?

HP: The biggest challenge is identifying teams which have the necessary experience. We are really looking for teams that have already managed to raise early-stage capital in order to create a proof of concept. We frequently get requests from what I euphemistically call “two persons and a book”. The concept might look great but if no technology has been put in the ground, it becomes almost a pre-seed venture capital

play. That is far too risky and not what we are looking for.

If you look at our recent investment in Croatia, the team already had a proof of concept. They had done it before. While it is an early-stage investment, that made us a lot more comfortable.

Q You have had private investors come on board alongside your public cornerstones. How would you describe LP appetite for this sector?

IG: The level of appetite has pleasantly surprised us, given that this is all so new. For most investors in infrastructure, telecoms is all about one thing – towers. Over the past 10 or 15 years, the incumbents that owned those towers have realised that it is more cost effective for someone else to take ownership and lease that space.

What we do is explain to investors that that same paradigm shift is now taking place with the open-access fibre networks we are putting together. We can point to the success stories of Gigaclear and CityFibre,



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for example, which are not only accessing private equity, but also the debt markets, as banks get increasingly familiar. This sector is still in its infancy but by making that comparison with towers, more and more investors are able to get comfortable with the concept.

Q How do the different geographies across Europe differ in the maturity of their fibre broadband networks and the way their governments are approaching the digital divide?

HP: Every country has its own national broadband plan, targeting a specific percentage of the population that will have access to high-speed broadband by a certain date. Each country has also approached tackling these targets differently.

In France, the government has taken a concession-driven approach. It has divided the country into areas where there may be private sector appetite, providing there is a concession in place which gives a de facto monopoly for a number of decades, areas where there is very little interest and subsidies may be required, and then areas – towns and cities, for example – where the government believes competition will do its job.

Germany, meanwhile, is a free-for-all. And in Italy, where there is a large digital divide, the government has taken a highly interventionist approach. State entity Cassa depositi e prestiti – one of our LPs and a shareholder in both Telecom Italia and Italian network company Open Fiber – has been tasked with doing everything within its power to tackle this divide.

There are other countries still, in the Baltics, for example, which are already well-fibred and where there is very little required at all.

Q What does the future hold for this part of the digital infrastructure landscape?

IG: When it comes to telecoms, I always believe you need to look to Asia-Pacific for what comes next. Take 5G in Europe. Operators still need to spend millions – or billions – to build networks. And then they need to provision the networks, so people sign up. We are many years away from having a fully-fledged 5G industry. Go to Asia-Pacific and it's already up and running. A country like Singapore provides us with a model of how open-access networks can work. We believe those networks are the future and that is why, with CEBF, we are trying to get there – as soon as possible. ■