DIGITAL INFRASTRUCTURE

Connecting the continent

Amid a burgeoning need for faster digital infrastructure across Europe, Cube Infrastructure managing partner **Henri Piganeau** talks about how the sector fits into its strategy and sheds light on the €500m fund it is managing for the EIB and the European Commission

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Q Why are broadband and telecoms a significant part of Cube Infrastructure's investment strategy?

HP: We like the telecoms field because it is an area where we believe there is plenty of opportunity for growth and value creation, as a consequence of the boom in [internet] traffic growth. This growth has generated a need for capital expenditure. For connections in Europe to meet continent-wide, data-delivery speed targets, you need €150 billion which cannot solely be sourced from public funds, hence the need for private equity.

Also, because of the change in what I call the telecoms business model, which used to be vertically integrated, we believe that in some areas and regions, depending on regulation, you will have the emergence of a horizontal, open-access layered model. There is room for new entrants and we'd like to foster the emergence of those new entrants..

If you look at the Public-Initiative Networks [a French broadband initiative], we believe these are appropriate targets which operate in a reasonably regulated, low-risk [environment] and at the same time provide you with growth as well.

Q How much do you expect to invest in digital infrastructure from Cube Infrastructure Fund II?

HP: It will approximately be between €300 million and €400 million in telecoms. I believe we will have a balanced portfolio between three platforms: telecoms infrastructure, energy supply, and energy efficiency and public transportation. So this will be roughly split one-third each.

Q Why has digital infrastructure only relatively recently become a prevalent investment need?

HP: Today, it has become a vital piece of infrastructure to be connected and to be connected at a speed and capacity which allows you to have the best services, whether you're in the middle of a city or rural area.

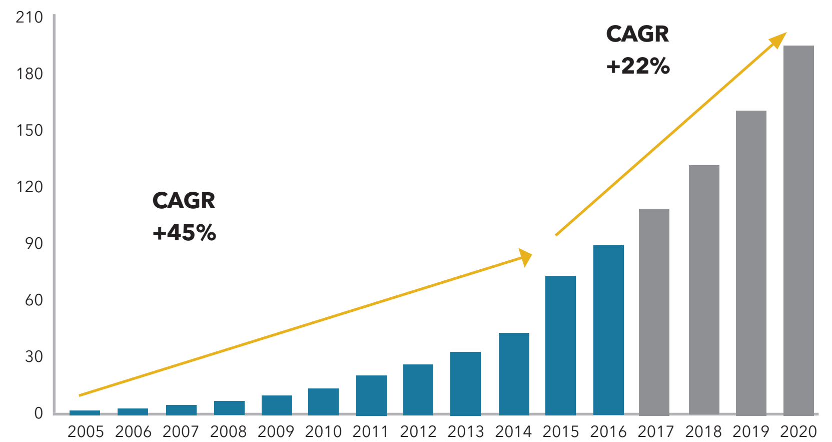
It's becoming a political demand which is very cross-border. So despite all this regulation, the political risk is usually very low because it's well-supported across the political spectrum, as it represents a vital need of the population.

We invested in telecoms in 2011 – through Covage, in France – at a time when it was not perceived as a valid infrastructure asset class. The confidence has emerged because the regulation is now slowly pushing in the right direction. There is a lot of political support. If you look at the European Commission's Digital Agenda, which set a target of having 50 percent of the population connected at a speed higher than 100 megabits per second, we are currently at about a third of that objective. The more recent 'Gigabit Society' initiative is raising that bar even higher. The political push has been articulated: you have goals and you have targets, so it is more visible in terms of what is needed and what will occur.

I also think there is a better vision of the real need of the population and the migration from copper cabling to fibre is perceived as much less risky than it used to be. One main reason is the emergence of data-hungry applications and services which require more bandwidth and speed than ever before. Maybe some five or six years ago, [only a few] people would have imagined fibre would compete with copper,

GLOBAL IP TRAFFIC (IN EXABYTES PER MONTH)

Exabyte = 1,000,000 Terabytes



Source: Cube Infrastructure

> "We invested in telecoms in 2011, at a time when it was not perceived as a valid infrastructure asset class"

whereas today the general feeling is fibre will replace copper.

Q What sort of risks do investors face when deploying capital towards such investments? And what returns do you expect from them?

HP: I think you typically have construction risk, but today this has become a utility. It's not rocket science technology. This risk is pretty much under control. The main risk today is still penetration risk. When you construct [networks] in a village, what will be the percentage of the ultimate client that would switch from copper to fibre? The end of the curve is known: everybody. What is not known is how fast, whether it will take three or 10 years. This, I believe, is the biggest risk and it is why you really have to make sure that you have a very long-term contract with the public counterparty, where the sensitivity on this delay is softened by the duration.

Returns completely depend whether it's a greenfield or a brownfield asset and whether in that given country the regulation is supportive or not. These would typically range from 8 to 14 percent.

Q Which countries present the greatest opportunities for digital infrastructure investment?

HP: Germany, France and Italy. This is where the lack of infrastructure is the highest. Does that mean they would be the best place to invest [in]? You have to look at the regulation and look at the risk. [The investment opportunity is] correlated with the current status of the infrastructure – those three countries are lagging behind in this sense.

Q What are the aims of the EIB-sponsored Connecting Europe Broadband Fund and what would a successful deployment look like?

HP: The aim of this fund is to foster local initiatives where you have public or private entrepreneurs and local projects which need financing. When I say financing, it's not senior debt, it's equity and equity-like [financing]. Those projects are probably a little small, but the idea of the fund is to help local initiatives flourish and, at a second stage, there might be a consolidation of those opportunities.

I would measure the success of the fund on the speed of deployment: are we able to identify good projects and deploy capital relatively quickly? Secondly, diversity: are we geographically balanced in investing in as many countries as possible? Ultimately, though, success would be based on financial results.

Q What is the CEBF's appetite for investing in the UK after Brexit?

HP: The UK is eligible [even beyond 2019]. We will judge a project purely on its merits. As soon as our mandate is finalised, we will go out and market the CEBF.

Q Would success in greenfield investments from the CEBF prompt you to reassess the brownfield strategy used for Cube Infrastructure II?

HP: The two funds work independently and they are not aiming for the same projects. CEBF is targeting greenfield projects, while Cube II is brownfield. Maybe in the following years, if the CEBF projects are successful, they could feed the brownfield Cube 'food chain' as they are complementary, but there are many other exit avenues for good CEBF projects. ■

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