

Fast five

From what excites them to what worries them, LPs and GPs share their views on the digital sector



Has digital gone mainstream?

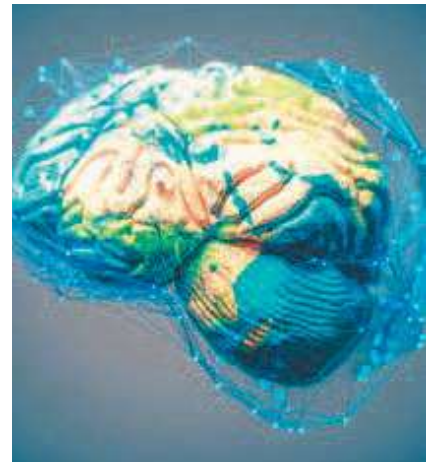
Ganzi: I believe it has. Every infrastructure GP now claims to have an allocation and strategy for digital infrastructure.

Candès: Yes, in particular for fibre and towers. Data centres are playing catch-up.

Maher: Yes. Increased data and data processing requirements driven by widespread adoption of new technologies are driving the need for investment in digital infrastructure. This trend is going to continue.

Maddalena: Data volumes will certainly rise steadily over time, so digital infrastructure is indispensable for progress in core areas of digital transformation, such as the Internet of Everything, industry 4.0, networked mobility or cloud services.

Güney: Yes and no. Digital – ergo putting online services today residing on paper, analogue or other formats – is going mainstream and being adopted at incredible growth rates. Yet unless one is within a highly dense city centre that is fully fibred or within a condensed cellular coverage, such services cannot be deployed or utilised.



What are the most promising regions and strategies?

TM: We see Europe and the US as two of the most promising markets. The average broadband speed in Europe is significantly slower than in other OECD regions – the EU has an average speed of 13Mbps, well below Japan with 18Mbps. The most promising strategies include smart cities and fibre.

IG: Opportunities abound across multiple regions in Europe and there is no 'promised land' per se. The winning strategy is anchored on the paradigm shift that telcoms infrastructure in an open-access manner is the way of the future.

MG: The best regions are the countries and communities that are underserved: Africa, Asia and South America. The strategies that provide promise are the ones that connect these communities. This really starts with fibre-to-the-premises and mobile connections, which implies towers.

CM: While the US digital ecosystems are leaders in many digital markets, Europe is clearly lagging behind its US competitors in this race. The most promising infrastructure investment strategies include fibre, smart cities and TowerCos.

OUR PANEL

Bruno Candès, partner, InfraVia Capital Partners

Marc Ganzi, CEO, Digital Bridge

Izzet Güney, managing director, Cube IM

Carlo Maddalena, senior portfolio manager, APG Asset Management

Tom Maher, head of business development, Whitehelm Capital



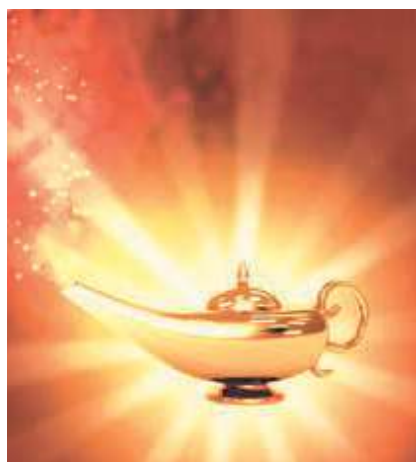
How about the main challenge?

BC: The main challenge for towers and fibre is building inflation-linked revenues. Ramp-up speed is also a challenge for fibre. For data centres, the challenge is technology.

TM: The heterogeneous nature of the market is a key challenge. This drives opportunity, but it also means there are a lot of opportunities that do not meet our definition of true infrastructure.

IG: The incumbents are mostly still wedded to their legacy copper networks and refuse to walk away. Some regulators send mixed signals when they allow operators to use the word 'fibre' in their ads when deployments are still using XDSL technology.

CM: One of the many challenges in unlocking the development of digital infrastructure in Europe is compounded by the fact that such investment has multiple constraints. These include the ability of telecoms operators to monetise mobile data use and generate sufficient returns.



What change would you make to the market?

MG: I am not sure we can change the current market, but there is an extreme disconnect between private market multiples and public trading comp levels that have reached historic highs. This perhaps suggests there is too much capital chasing too few ideas in digital infrastructure.

TM: The market will continue to evolve as it matures and investor understanding and appetite continue to grow.

BC: My one change would be putting inflation back in European towers.

IG: Institute full copper switch-off at a predetermined date.

CM: Cutting red tape to accelerate the broadband deployment.



What do GPs need to know when it comes to digital infrastructure?

CM: It is key for GPs to avoid strategy drift, and only invest in proven technologies that meet the risk-return profile that their LPs have signed up to. As such, the structuring of these new investment cases requires an extensive study.

IG: GPs currently in the infrastructure space tend to be mostly in the brownfield end of the spectrum. This means towers or currently cashflow-generating assets, hence mature fibre networks.

MG: Digital infrastructure has a much higher degree of operational complexity than traditional core assets. As such, it requires a unique set of engineering and operational skills that are new to this base of GPs. They need to ensure they can operate the assets and deliver the operational excellence and performance that global carriers demand.

BC: GPs need to know about the impact of 5G.

TM: GPs need the ability to get 'under the hood' and genuinely understand the risk-return profile of the investment opportunities.