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IJInvestor Awards 2020 – Redefining Infrastructure

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IJInvestor – the IJGlobal sister title focused on infrastructure fund activity and global infra/energy M&A – is delighted to announce the shortlist for the Redefining Infrastructure category in our annual awards.

Launched last year, IJInvestor Awards was created to celebrate global activity in this space, and this year's awards recognise developments that occurred from the start of April 2019 to the end of March 2020.

In this piece – a follow up from Friday's Editorial – we challenged the market to impress us with how they have re-defined the concept of infrastructure as an asset class.

Likely this category will have your dyed-in-the-wool infra purist grinding his/her teeth as they dig in heels… while the market shifts unwaveringly away from scrabbling over equity stakes on PPP assets.

This award is designed to tip the hat to those who are leading the charge (only time will tell if it is in the wrong direction) and gives those in the vanguard a chance to thumb their noses at traditionalists overpaying for PPP stakes as they reinvent the world.

You can read about the other shortlisted categories for the *IJInvestor Awards 2020* here:

- Global Acquisitions
- Refinancing
- Restructuring
- Market Innovations
- Company Awards

As with the IJGlobal Awards – launched next month (November) for submissions and planned for physical events in June 2021 (usually staged March) – these awards are judged by an independent panel of industry experts. It should be noted that these award categories have been stripped out of the IJGlobal Awards.

There are a couple of other awards that have not been included in these stories. These were single entries for a category that we deem merited a salute. All will be revealed in the mid-December issue of the *IJGlobal Magazine*.

Redefining Infrastructure

Much like the Market Innovations category, we had no idea what to expect in the shape of submissions, but we struck lucky with 6 submissions that fit our criteria.

This in turn allowed us to separate out the awards to recognise developments in Europe and North America.

This is more than a little convenient as we intend launching an IJInvestor Awards for the Americas next year and this creates a solid platform upon which to build.

Re-defining Infrastructure – Europe

3i Infrastructure

During the year to March 2020, 3i Infrastructure (3iN) delivered an 11.4% net return to its investors, outperforming is 8-10% net target return. 3iN met its dividend target of 9.2 pence per share and announced a new dividend target for the current year up 6.5%. It realised during the year its investment in Wireless Infrastructure Group (27% IRR, 1.7x money multiple) and a portfolio of UK PPPs (15% IRR, 2.4x money multiple).

On the re-defining infra point, it completed investments in:

- Joulz, a Dutch provider of electrical equipment to commercial and industrial customers
- Force Hydrolique Antillaise, a French hydro developer based in the Caribbean
- Valorem, a French renewable developer and power producer
- Ionisos, a European operator of cold sterilisation facilities

Of those deals, Ionisos was a key development on the re-define side. 3iN invested around €210 million to acquire 95% of the shares in Ionisos alongside, the management team. Established in 1993 in Civrieux, France, Ionisos is the third largest cold sterilisation provider to the pharmaceutical and medical industries globally and operates a network of 11 facilities in Europe with market leading positions in France and Spain. It has more than 200 employees and a highly-diversified customer base of more than 1,000 customers. Ionisos delivers a mission-critical service for the medical, pharmaceutical and cosmetics industries for whom cold sterilisation is an essential component of the manufacturing process.

The infrastructure characteristics were put to the test shortly after 3iN's investment with the outbreak of Covid-19 and – as an essential component of the healthcare supply chain – the business proved its resilience in that difficult environment.

Cold sterilisation is a local service (clients are usually based within a 200km radius of the plants) and even though 9 out of 11 facilities operated by Ionisos are based in countries which suffered from severe lockdowns (France, Italy and Spain), the essential nature of the service was immediately confirmed by multiple governments. Local entities were included in the list of companies permitted to operate.

While lockdown measures affected some of the customers served by Ionisos (non-essential surgical goods as operations were delayed), the business saw additional demand as a consequence of the sanitary measures being put in place: testing kits, inhalators, protective equipment and masks all need to be sterilised.

This allowed Ionisos to maintain its steady growth, albeit with a different product mix. During the period, Ionisos continued growing its footprint with various expansion or greenfield projects under way.

We believe the long-term business fundamentals remain unchanged, supported in particular by the increased focus on sterilisation of medical equipment, and a degree of re-onshoring of pharmaceutical and medical equipment manufacturers back to Europe.

Arcus Infrastructure Partners

In late 2019/early 2020 Arcus acquired majority stakes in 3 industrial-scale cold storage companies in Belgium (Stockhabo, 40% controlling stake acquired), the Netherlands (Lintelo, 75% ownership stake acquired) and Norway (Glacio, 90% stake acquired) and established a platform, Constellation Cold Logistics.

Constellation's strategy, which has been developed with the help of specialist senior advisers, contemplates the aggregation of several market-leading cold chain infrastructure businesses within Europe.

The total initial investment in Constellation is around €65 million and was funded entirely by equity by Arcus' second Fund, Arcus European Infrastructure Fund 2 SCSp.

The three companies work with food producers (such as Unilever) as well as wholesalers / retailers and act as critical nodes in the journey between the production of food and its consumption.

The three deals were acquired on a purely bilateral off-market basis in some cases with years of relationship building before then. The facilities are built at "strategic locations with captive catchment areas", such as next to food production factories or at ports, one of several barriers to entry for competitors.

Although Constellation offers value-add services such as blast freezing and thawing, storage is the core of its business.

Constellation Cold Logistics is only the second investment in cold storage by an infrastructure investor and the first in Europe. The investment followed more than two years of research, deep sector analysis and investment target profiling by Arcus as we examined the strategic opportunity offered by a fragmented cold storage sector in Europe.

Much of the limited consolidation that has taken place so far in Europe was driven by players that also have major US operations such as Lineage Logistics and Westport Capital Partners-backed NewCold, which have snapped up much of the US market and are now making inroads across the Atlantic.

The Arcus plan for Constellation involves using it as a platform to create "a leading European network in the cold storage and logistics market". With the aggregation of the three companies Constellation is already the fifth biggest cold storage player in Europe by area, according to the GCCA, with around 1.6 million cubic metres of storage capacity across its eight facilities.

Arcus's interest in the cold storage sector arose from its positive experience in holding port assets, namely Forth Ports in the UK and Euroports based in the Netherlands.

Infracapital

The most recently raised Infracapital brownfield fund – Infracapital Partners III – saw strong deployment in 2019 and 2020 in the fibre space with two new investments.

In 2019, a sizeable bilateral transaction was made with the acquisition of 50% of NEOS Networks from SSE, one of the UK's leading connectivity suppliers.

SSE Telecoms, with a growing 12,000km UK-wide fibre network, continues Infracapital's active profile in the telecoms infrastructure sector having managed businesses throughout the UK and continental Europe, with a focus on delivering fibre networks to meet the increasing societal demands for high-speed internet access.

Furthering this, in 2020, Infracapital Partners III acquired 63% of BBV, a rare opportunity to acquire a pure play German Fibre-to-the-Home (FTTH) business, with a strong track record.

BBV is focused on rolling out FTTH in rural and semi-rural areas, which are currently underserved and reliant on slow broadband speeds, primarily from copper networks.

The team has an active and diverse pipeline, given the benefits from existing relationships and partnerships developed during deployment of IGP I, which look to respond to twenty first century issues, investing to provide a solution to topics such as decarbonisation and fibre roll out.

The recent fibre acquisitions in SSE Telecoms, BBV and Fibrus (outside the judging period) continue Infracapital's strong track record in this space with previous investments across Europe in Gigaclear, Wightfibe and Nexera.

Infracapital was an early adopter in the fibre space, having made an investment in Gigaclear in 2017, a broadband developer rolling out high-speed fibre-to-the-premises (FTTP) networks to rural communities in the UK.

Since then, Infracapital has used its expertise in this space to make further investments in Wightfibre, an established local telecom company on the Isle of Wight rolling out FTTP across the island, and Nexera, a partnership with Nokia to design, build, finance and operate (DBFO) regional broadband networks in underserved areas across Poland and more recently in SSE Telecoms, BBV and Fibrus.

Antin / Sølvtrans

With favourable demographics, a healthy product and constrained supply of other protein, Antin believes that Sølvtrans provides an essential service with robust infrastructure characteristics.

Antin was the first infrastructure firm to invest in this sector.

Aquaculture a key source of protein to satisfy growing protein demand and wellboats provide an essential service to the salmon farming value chain. Notably, Sølvtrans was designated as critical infrastructure by government authorities during the Covid-19 pandemic and continued to operate and supply world markets with fresh salmon.

In examining the nature of Sølvtrans as critical infrastructure, Antin identified structural long-term demand for protein and salmon as the world population is expected to reach 9.7bn by 2050 with an increasing middle class.

Salmon is the most efficient source of protein amongst the main farmed sources of animal protein; it being easily digestible with a high nutritional value.

In contrast, land-based protein such as beef, pork, poultry are facing substantial sustainability challenges and are growth constrained. Moreover, other sources of aquatic protein are likewise constrained, with wild catch salmon volumes stagnating and at risk of overfishing.

Antin believes that the expected increasing protein demand gap will be filled by aquaculture to a large extent.

This accomplishment represents the deliberate value creation objective of expanding the fleet organically to meet growing market demand.

Sølvtrans serves international fish farmers with global wellboat needs and has a track record of winning contracts in new markets by leveraging its existing customer relationships and its global position to contract new vessels.

By providing the only safe method of transport for live salmon and trout, Sølvtrans's wellboats play a key role in satisfying global demand for seafood.

Moreover, the company's fleet is the world's youngest, meaning it is equipped with state-of-the-art technology guaranteeing the highest quality standards and allowing for the most efficient use of resources in fish transport and processing.

During the judging period, refinancing for Sølvtrans was successfully completed. This refinancing introduced an infrastructure-debt structure, new lender relationships, and more cost efficient capital to support growth of business.

Re-defining Infrastructure – North America

Digital Colony and Colony Capital

Digital Colony announced closing of inaugural fund at $4.05 billion, creating the first dedicated digital infrastructure fund – Digital Colony Partners. Simultaneously, Digital Bridge and Colony Capital combined industry, operational and investment experience.

Colony Capital Inc. shifted its strategy to focus on digital infrastructure, while the Digital Colony and Colony Capital teams complete a number of complex and transformative transactions under Marc Ganzi's leadership, with the overarching goal of partnering with companies that will provide the next generation connectivity solutions.

The inaugural fund – Digital Colony Partners – hit final close in May 2019 at $4.05 billion in commitments, well above its original $3 billion target.

Today Digital Colony Partners is more than 70% deployed, and it is a key component of Colony Captial's pivot to digital infrastructure.

Among key portfolio investments, noteworthy is the take-private of Zayo Group Holdings Inc by affiliates of Digital Colony Partners and the EQT Infrastructure IV fund.

The transaction's closing was announced in March 2020 and valued at $14.3 billion, which represents the largest syndicated private equity investment, the fifth-largest Media & Communications LBO and the second-largest LBO overall since 2008.

Digital Colony partners has additionally invested in companies across North America, South America, and Europe.

Colony Capital's digital transformation: the firm's executive management team is executing a strategic plan to rotate the balance sheet and recycle capital into digital infrastructure.

In Q2 earnings presentation some detailed key objectives of this strategy are to align Colony with key secular trends; simplification; predictable digital earnings and; attractive returns on invested capital.

On the same presentation, the firm detailed seven proprietary, transformative deals deploying nearly $20 billion, closing six financings accessing $12 billion in credit during unprecedented times.

Natixis

During the judging period, Natixis announced / closed around 10 transactions in the telecoms infrastructure sector across multiple products globally, consolidating its position as one of the pioneers that have contributed to the emergence of digital infrastructure as a mainstream sub-sector within the infrastructure finance space – from data centres to fiber and cell towers.

Over the last 4 years, Natixis has played a leadership role in redefining and extending infrastructure financing deep into Digital infrastructure.

Given the significant capital formation within the digital infrastructure sectors globally (e.g. Datacenters, Towers and Fiber), driven by strong secular trends such as growth in mobile data traffic, 5G, cloud adoption etc, Natixis has continued to find creative structures to raise optimal capital in the infrastructure financing market across all these subsectors.

Despite variations across geographies with respect to the types of financing metrics and structures, which have often included elements of real estate financing, leveraged finance and infrastructure finance, Natixis has been able to play a leadership role in formulating solutions to maximize breadth of investors it has been able to attract, while optimizing cost of capital for its clients.

This has led to Natixis playing a lead role on multiple transactions across the Americas and Europe for numerous clients including EdgeConnex, Ascenty, Phoenix Tower International, Vantage Datacenters to name a few.