GlobalCapital

Digital infrastructure roundtable: Financing fibre in Europe and beyond

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Financing fibre in Europe and beyond

Participants in the roundtable were:

Pauline Fiastre, financing director, Infravia Capital Partners

Fabrice Garus, partner, investment director, Vauban Infrastructure Partners

Steve Ledoux, partner, senior investment director, Vauban Infrastructure Partners and CEO of Vauban Infra Fibre

Gilles Lengaigne, managing partner, Infranity

David Maisant, head of leveraged & telecom finance distribution EMEA, distribution & asset rotation, Crédit Agricole CIB

Stéphanie Passet, investment director, infrastructure debt, BNP Paribas Asset Management

Thibault Rosset, global head of TMT finance, corporate & leveraged finance, Crédit Agricole CIB

Bert Schoen, senior fund manager, infrastructure finance, AXA Investment Managers

Toby Walker, head of telecom finance syndicate, Crédit Agricole CIB

Claire Landon, moderator

GlobalCapital: As long predicted, fibre is finally taking centre stage, forming the backbone of next generation networks as well as rapid digitisation across sectors. As a result, investment is flowing into digital infrastructure like never before, helping to propel telecom to the most active infrastructure-like sector for non-banks this year.

2022 has seen a record number of new fibre projects launched in Europe. Highlights included Deutsche Glasfaser, Obelix and Openfibre, as well as Glasfaser+, Cityfibre, TDF Fibreco and Connemara — deals you will all know well, plus others currently in the market such as Ballon d'Or in Poland.

This has meant more than €30bn of fibre debt raised in the market, according to Crédit Agricole CIB estimates. We've witnessed multiple deals in the €3bn to €7bn range, in countries including Germany, the UK, Italy, France and Spain. These figures represent a large part of the capex needed to roll out fibre across the continent. Much of this deployment is already financed, but the market will still need to raise and recycle new or existing equity and debt to complete this roll-out, support M&A transactions, and refinance existing debt.

Today we will examine which factors are driving this trend, and discuss how these may be impacted by the volatile economic and geopolitical climate. We will try to find out what level of capex is needed to fully transform networks to fibre across Europe, and ask whether debt and equity investors have the appetite to keep backing this part of the market.

Given all of this, let's start with the big picture: what is driving massive investment flows into digital infrastructure?

Thibault Rosset, Crédit Agricole CIB: First of all, it starts with technology. Solid digital infrastructure has become a national imperative. As far as fibre is concerned, we need density to support the bandwidths required for digitalisation and economic development. This technology will last for decades, making it a worthwhile investment. This has not happened overnight. Investors have spent a lot of time educating themselves on the sector, and by this, I mean banks, debt investors, private equity sponsors and telecom operators. It all started with regulation and policy, at least in certain countries, encouraging these early developments and diversifying them in terms of geographies, risk profile, etc. It was also driven by proven demand in the market, coupled with very large capex requirements, which encouraged telecom operators to seek these investments via equity partners and the debt market.

Thibault Rosset
Crédit Agricole CIB

Fabrice Garus, Vauban Infrastructure Partners: We began to invest in fibre in 2009, with the acquisition of Axione Infrastructure, which is a holding company for various public incentive networks in French rural areas. When we entered this market, many investors viewed it as new and risky. At first, we only heard about the negatives: concerns such as French regulation, the conservative framework, questions about the traffic risk and the construction means. But then, the perception of risk changed for investors, who learned about this asset class. I think it's also thanks to France, which brought lots of transactions onto the market. It became a must-have for some investors, because fibre is an essential asset with an unmatched and well-known performance. They then understood that construction risk was limited, we have limited civil works, thanks to the reuse of existing infrastructure. The perception of traffic risk really decreased because transferring clients from copper to fibre was no longer considered as a pure revenue risk, but rather as a migration risk. So, investors can effectively consider FTTH networks as a utility.

Steve Ledoux
Vauban Infrastructure Partners and Vauban Infra Fibre

Steve Ledoux, Vauban Infra Fibre & Vauban Infrastructure Partners: Political support is paramount. When we were first investing in Axione Infrastructures in 2009, it was called the first generation public initiative networks (PINs). The aim was to connect all the central offices to the incumbent's copper local loop to make it available to all retail operators, so there was already strong political support. To prevent a digital divide, everybody must have access to a central, high quality network, all at the same price. This was crucial for economic development across France, for all French citizens. In the UK, for example, the government has been thinking about fibre, but took a long time to decide it was the right technology to use. The situation there now is comparable to France five years ago. The French market is really clear and stable, thanks to ARCEP and the government's regulatory framework.

GlobalCapital: What is the fibre optic investment opportunity in EMEA, and specifically in western Europe, across debt and equity?

Gilles Lengaigne, Infranity: Another dimension that is driving investment is data sovereignty, both for fibre and across the whole value chain including data centres. From the debt point of view, we have seen a lot of fibre projects emerging. But they are still rolling out, and while there were initial capex facilities raised, there's an opportunity to continue to extend those financings and support the roll-outs. Looking across all the fibre transactions we have financed, projects tend to be slightly ahead of their game plan in terms of deployment. This is good news, since it means they've consumed their capex facilities more rapidly than expected, and are now coming back with additional needs. So there's a clear opportunity to continue financing the network roll-out. At the same time, a decent perimeter has already been rolled out, so there is an option to optimise capital structure and perhaps start refinancing the earlier deployment with long-term debt. The third trend is likely to be the consolidation among certain players' shareholdings, from greenfield investors who might sell down their exposure to long-term brownfield investors.

Bert Schoen, AXA Investment Managers: There has always been a telecom element in infrastructure portfolios. But at the same time, the telco sector was always quite technology-driven. It moved from 2G to 3G to 4G to 5G, with a relatively high obsolescence risk. But for fibre technology, we see a long-term need, and there probably won't be anything replacing fibre networks in the next 20-25 years. This longer economic life in turn allows for a longer-term investment horizon, which makes fibre networks interesting for an infrastructure investment portfolio. This in turn opened the way for an additional allocation in portfolios, and allowed us to expand from more traditional sector investments like telecom towers into fibre networks. The regulatory environment has played a role in the pace of roll-out, but there are also country-by-country differences in existing infrastructure, or lack thereof, that also contributed. Countries that are lagging from a fibre roll-out perspective, such as the UK and Germany, had strong cable and cable broadband usage.

The fibre roll-outs are only coming now to these countries, because fibre has been proven to be necessary, as cable's existing broadband speeds are no longer sufficient and the cost of upgrading cable to higher speeds is relatively expensive compared with the cost of installing and operating fibre. Investors can currently choose what stage of network roll-out to invest in. They can either invest in more mature networks, for example in Italy or Portugal, or in transactions with a higher degree of roll-out and take-up risk, for example in the UK or Germany. It is a sector that is interesting for portfolio construction, since you can decide what kind of risk return you need, and then select the transactions that match that profile.

Pauline Fiastre, Infravia Capital Partners: Fibre is future-proof in terms of speed and its ability to be further upgraded, because you just need to replace active equipment. Obviously, these massive capex roll-out plans don't come for free. Historically, telecom operators have been upgrading their mobile technology on their own, leading some of them to become significantly levered. But in fibre, they've found a pot of gold, in that they can now monetise their infrastructure asset base by either divesting or teaming up with financial partners (equity and debt) to further pursue upgrade and roll-out plans. Greenfield projects are attracting gearing ratios of around 70:30, which means twice as much debt is raised compared to equity. A partnership with a financial investor enables a telecom operator to deconsolidate the massive debt quantum that goes along with these capex roll-out plans. As a financial investor with strong telecom experience, we therefore see ourselves as a natural partner to the industrial players.

GlobalCapital: With telecom is often classed as critical national security infrastructure, what is the role of regulation and policy?

Ledoux, Vauban Infra Fibre & Vauban Infrastructure Partners: The Irish government invited Axione and us to explain how things work in France, because some countries wanted to replicate the French National Broadband Plan. What this plan did, thanks to the French government and ARCEP, was to provide equity investors, institutional investors and banks with visibility and stability. In less dense areas, there were delays because the major operators only wanted to address and invest in big cities because it was less expensive, and because they could serve end-users directly by owning their own infrastructure. The government and the regulator therefore suggested launching a request for proposals to invest in the rest of the country. Two major operators — Orange and SFR — said they would be willing to roll out fibre networks in areas covering around 3,000 cities. In those medium dense areas, a single network was rolled out for use by all of the retail operators.

In the remaining parts of the country, now called public initiative networks areas, public authorities at a regional or department level were responsible for the network design, roll-out, operation, maintenance, and commercialisation. Because they didn't have the know-how — which is important for us from an equity perspective — they used a concession tool under which a private partner was in charge of the design and build, maintenance and commercialisation of the network. And there was an exclusive public subsidy to do that, which was important. This was a very clear framework with a single infrastructure, making it a quasi-monopoly situation in these areas. But in the UK, you can face potential overbuild situations, which we don't think is the fastest way to address a country's needs in terms of roll-out pace or attracting investors and banks to finance massive capex.

We are currently in the UK with Axione, internationalising our investment, and we'll talk about that when we have completed our partnership with Telefónica in Spain. We went to the UK to export our track record in design and build time and budget. It's not easy, because there are some unknowns from the incumbent operator, BT Openreach, which has said it will roll out across the country following certain milestones. So you have to go fast, and try to avoid an overbuild situation, and there are also alternative operators that will roll out some networks.

Stéphanie Passet, BNP Paribas Asset Management: It's true that France made it easy to enter the fibre market with very defined regulations for de facto monopolies, but what's interesting is that other countries have a different profile. And in more competitive jurisdictions, we are also able to get some comfort and find predictable cash flow, so we can invest in projects within a more competitive environment. Other barriers to entry include deployment costs. In Germany, for example, it's more expensive to deploy than in Spain, so it may be harder for other players to build a competing network. In some other jurisdictions, you can sign long-term contracts with mobile operators. So regulation is one comforting feature, but you may find other ways to get comfortable on cash flow visibility. You can also get a different kind of risk return profile, as Bert mentioned, depending on the market. We are invested in more than 10 fibre transactions across six European jurisdictions, and we've looked at more than 40 opportunities in the telecom sector. 2022 has been a year rich in opportunities.

Stéphanie Passet
BNP Paribas Asset Management

Rosset, Crédit Agricole CIB: I would like to put the French legal framework into context. Europe's regulators have historically pushed for increased market competition. That was before fibre, and was about adding new mobile licences and new competition. This has resulted in weakened European telecom operators, which today have much lower margins, much lower cash generation, lower average credit ratings, and hence lower investment capacity. It's important to remember that the influence of this legislation and increased competition is also what has driven the investment opportunity. It has pushed Europe's telecom operators into finding partners and finding smart ways to deploy fibre. Legislation, when it came, has helped. But the context was not that rosy and it was very different depending on the market, as Stephanie rightly put it. There is a number that I like to keep in mind: Orange's market cap today is €26bn, while Verizon's is $160bn. It's not the same market, and not the same size, but it's very different to the situation 10-15 years ago. So to put it another way, there is generally no shortage of money to invest in the digital space, as we have seen in crisis after crisis. Banks and equity investors are doing deals, even in tough times, because there is a long-term business case. Regulation and policies are however key to ensuring that the funds can be deployed rapidly.

GlobalCapital: How are deals being structured, and which type of investors are they attracting? Crédit Agricole CIB topped at least one telecom lending list, with 13 deals worth USD 3.1bn.

Toby Walker, Crédit Agricole CIB: We've mentioned France's strong regulation and the early stage deal flow has given French banks an advantage. These deals are concession-based, with a good syndication history and fibre deployment track record. On the deal structures, from the bank side, there's a very strong underwriting opportunity. Unlike a traditional PPP-style infrastructure, which features bidding over months and years, the fibre space is dominated by a speed of time to deploy, the need to get capex secured to support rapid build-out, and the acquisition JV structures where sponsors want to run competitive acquisition-style processes. This needs an underwritten financing, requiring banks to step up with large underwrites to support their clients. For instance, over the last two years Crédit Agricole CIB has been mandated on €8bn of underwrites in the digital space, of which €6bn have been fibre, and that's all within EMEA. Noting that €16bn of credit approved underwriting is offered to achieve this, there is quite sizeable money put around the need to underwrite.

Toby Walker
Crédit Agricole CIB

More specifically on structures, and speed of deployment, what we're seeing is two types of the more market-driven, open-ended capex structures where sponsors need to come back for additional capex over time. It's been mostly seven-year bullet hard mini-perm, with sweeps in the last two years and margin step-ups, based on the expectation that sponsors will be able to refinance and raise additional debt when needed. They can raise enough to deploy over a reasonable horizon, and then raise more debt as things are deployed out on the market. In the longer term, concession-backed and contracted deals, for instance the Obelix and Asterix-type concession-based deals that Vauban is referring to, we've seen much more liquidity for longer-term fully amortising debt or a soft mini-perm bank structure. Here, the maturity is a better match to the concession life than the more typical infra concession style, or sized with a tail against the contracted basis.

As the market matures, the seven-year mini-perms will likely continue to be refinanced until we get through the capex phase. Once you have fully operational deals, you can then look at longer-term financing depending on the equity ownership targets. There's one other point, drawn-undrawn is important because many institutional investors — present company excepted — prefer drawn debt tranches. Otherwise, the undrawn capex tends to be more bank funded. For the more midscale institutionals, they have preferred more drawn term loans. Whereas in the bank style, it's possible to finance on a pure undrawn capex basis.

GlobalCapital: How should investors understand the complexities and challenges involved, speaking from the full infrastructure investor angle?

Garus, Vauban Infrastructure Partners: The structure of the transaction also depends on the investment policy of the asset manager's GP. Are they long-term driven or event-driven, and what type of underlying contracts do you have? At Vauban, we are yield-driven: we like IRR, but we prefer yield. So we have to structure our transaction to provide our investors — who are long-term investors — with a steady yield over the lifetime of the investment. Therefore, we have to provide them with visibility on the capex, the revenue, the opex and the quality of the execution as to how the network operates. Operation will depend on the type of contract. You can have a public contract with an infrastructure monopoly — we talked about the PSD (Public Service Delegation) agreement bringing a clear framework with some protection for the investor, and also for the lenders. This is a back-to-back principle, getting the construction and operation risks to the industrials. This framework can allow us to offer long-term financing, and to gain long-term equity commitment from our LPs.

Fabrice Garus
Vauban Infrastructure Partners

We also replicated this kind of structure and the comfort that we have on the public service delegation on private contracts by implementing long-term contracts with strong commitment from an anchor tenant on prices, volumes and exclusivity. We negotiate turnkey contracts, implementing strong protections against inflation. The drawback of having an anchor tenant is having to rely on it to design, build, commercialise and operate your network. That means you must be very careful about managing any potential conflicts of interest.

On all these points, we need to be very clear with our investors and make them comfortable. We have to offer visibility, and we need to educate them on this asset class. This type of investment is for insurance companies, pension funds and asset managers with long-term liabilities, who are willing to match these with long-term assets.

Ledoux, Vauban Infra Fibre & Vauban Infrastructure Partners: To help a shrewd investor understand the complexity of the underlying asset, you also have to understand very complex business plans. What is crucial is understanding how to price the asset, and the corresponding risk. We need to provide the ability to design and build, on time and to budget, and to commercialise the network and operate it properly. Since 2009, we've always worked with industrial partners such as Axione, in which we hold a stake alongside Bouygues. We want to have the full value chain under our responsibility and monitoring. So we are going to do everything from the design, build, operation, maintenance and finance. We have all of these skills on our teams, so we can assess the risks we are taking, and transfer it to good counterparties.

Lengaigne, Infranity: I agree that there are opportunities for banks to underwrite, and sector transactions are obviously very large. At the same time, if we've been able to execute on such a volume of transactions collectively, it's because there are good partnerships between different players. Banks definitely played a lead role in providing an underwriting structure, and we've worked extremely well with Crédit Agricole CIB on many occasions where we as institutional investors have supported financings with large tickets. Typically, we've mobilised hundreds of millions on each large transaction. We've done that in Germany, France, Italy, the Netherlands and Ireland. We've made sure that there was a clear understanding from the banking and sponsor sides of the capacity that's available to sustain these investment volumes. If you look at the different structures, we've been able to navigate the different regulatory environments and country specificities because we've all become sophisticated at working together. We have also developed some common views about what we need in order to structure these transactions. We understand what it means to finance a monopoly or de facto monopoly network, and also understand how to finance a network where there is more competition — maybe some overlap, risks with long-term contracts, and an ability to survive an operator bankruptcy or sector consolidation.

Pauline Fiastre
Infravia Capital Partners

Fiastre, Infravia Capital Partners: There are different types of risk levels, and some risks are not for everyone. It requires a certain level of education, and depends on each individual investor's target return. One of the main challenges I see today — and probably for the years to come — is inflation. Clearly, the capex increase risk has not been priced properly in the past. You should look at existing offtake contracts — so-called MSAs (master service agreements), which often feature caps on inflation indexation. So the biggest challenge now is how to pass the capex increase risk to wholesale buyers, and ultimately to final clients in the context of very high inflation and very high market competition on the retail side. Openreach, the infrastructure arm of BT, has recently announced a pause in its roll-out because they are trying to control costs amid surging inflation. So for now, they are focusing on existing projects, as opposed to rolling out fibre in underserved or less dense areas.

Passet, BNP Paribas Asset Management: There is another parameter. ESG has a direct impact on liquidity in view of the sustainable finance disclosure regulation (SFDR). When we launch a new fund, we — like everyone else — want to be the best in class. If you were to launch an environmental impact SFDR-9 fund today, 100% of the assets must be sustainable, but a telecom operator is not mapped by the current EU taxonomy. However, a fibre asset does meet a social objective as it enables local economic development. So for us, it's a question of how institutional investors operate in the longer term within the new ESG context. ESG has evolved from a residual constraint to a primary investment objective.

Schoen, AXA Investment Managers: We are both a fixed and floating rate investor. In France, we did most of our transactions as fixed rate, but at the moment, we see quite a bit more floating rate transactions particularly in Germany and the UK. There, transactions are typically shorter, and include a cash sweep in the later years to encourage a refinancing after four or five years. We are currently seeing a large number of quite early stage altnets coming to the market in the UK and Germany.

We were in a very low interest rate environment, but that has clearly changed. In addition, over the last six to nine months, the credit costs for investment grade and sub-investment grade have widened further. Particularly for companies that are still in roll-out, interest costs are a large part of their cash flows, and these costs are becoming more differentiated between the smaller ones and the more established ones that started rolling out earlier and now have a significant subscriber base. It is yet to be seen how newer ventures that are less advanced in their roll-outs will be competitive in a market where the cost of financing is going to be a defining factor, in combination with the earlier point about capex costs, which are rapidly increasing.

It makes it difficult to see how the dozens of announcements about new roll-outs in relatively niche markets, including those aiming to be monopolies in a small region, can result in viable companies. Some of these plans are roll-outs to 500,000 homes, or planning to have 200,000 homes connected over a five to seven-year horizon. It raises the question: what is the next step for this type of venture when the loan matures in five to seven years? Is it a play to become part of a larger consolidation? Or is that a step-up to the next round and can it still avoid overbuild on its way to becoming sufficiently sizeable as a standalone company? Compared to the more advanced roll-outs, some of these newer ventures — while interesting — are probably outside our credit appetite.

GlobalCapital: What levels of issuance are we seeing, and from where is this activity originating? What are the key criteria for investing equity in a European fibre project in terms of geography, regulatory framework, etc?

Fiastre, Infravia Capital Partners: From an equity perspective, it really depends on the type of underlying risk. We've already covered some of these risks: is there any commercialisation risk? Or is there a long-term contract with an anchor tenant? What is the quality of this anchor tenant and how big is it, what is its market share and track record? How long is the contract itself? Is there a very strong downside protection like a minimum offtake guarantee, as a trade-off for giving up on the upside? Or, on the contrary, are there additional commercialisation opportunities? In addition to these, a new risk that has emerged recently is inflation, which will have a strong impact on unitary roll-out capex. How can inflation be passed to offtakers through the wholesale contracts?

Like every other infrastructure asset, the nature of the investor highly depends on the level of risk and cash flow predictability. Direct institutional investors, such as pension funds, are less eager to make a move on greenfield projects, unless it is a regulated scheme and provides a de facto economic monopoly on the new infrastructure: ramp-up risk, meaning the pace at which subscribers will come onto the network, will still be there. It can be mitigated by sensitivities and adequate cash reserves, but final penetration risk is less of an issue, because one can reference historical penetration curves. As someone said earlier, the track record on this is very good: greenfield projects have always been ahead of their initial ramp-up forecast. On the contrary, riskier deals — the ones with overlap situations where there's no minimum volume guarantee — are more likely to attract infrastructure funds like ourselves with higher return targets. This is because we have strong asset management capabilities and a very good education level on the different markets, especially since each geography is different and has its own challenges. We already covered the main differences between the UK, Germany, Spain and France, such as the different regulatory schemes, different levels of overlap and very different capex costs as this is dependent on housing density.

At Infravia, we like to team up with industrial partners, and since last year, we have entered Germany through a partnership with Liberty Global, invested in Ireland's Connemara and Ballon d'Or — both with Iliad, and most recently, invested in Nexfibre in the UK in partnership with VMO2. So we have contributed to such massive levels of issuance. The trend is set to continue because fibre roll-outs are not yet completed and there are multiple ongoing projects. Even if there are certain projects (like Openreach) on pause (and perhaps more to come), there will still be some consolidation opportunities, because in this market, size also matters. You need to be big when you negotiate construction arrangements with partners or wholesale contracts with telco operators. We expect opportunities in markets like the UK, Germany and Poland, where you've seen small operators with a land grab strategy that will probably need to consolidate with stronger players in order to compete against existing giants.

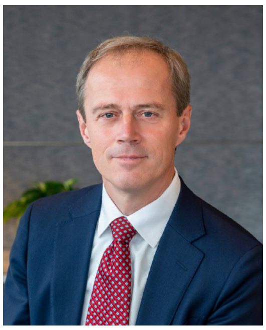
Walker, Crédit Agricole CIB: We saw around €30bn of issuance this year, up from €10bn around 2020. It's been more greenfield and next year, it may move a bit more to capex. As we've said, it's more refi and add-on new capex. One thing worth mentioning on the issuance is that although the market has matured massively in the last two or three years due to the volume of deals, the sheer volume of issuance has supported the pricing to remain. Contrasting this market with the offshore wind market, that sort of pricing fell repeatedly on new deals as the market matured over the last few years, with pricing now much closer to PPPs and much less premium for merchant risk.

In fibre, what we've seen is pricing has really held up as there's a competition for liquidity. If deals aren't well priced, they simply aren't attracting the liquidity, and people can pick and choose other deals to deploy into from an investor perspective. We've seen an issuance with more cornerstones coming in, for instance, on Deutsche Glasfaser, on which Crédit Agricole CIB advised, but there was no need for a specific institutional tranche. It was a mixture of term loan and capex, but nevertheless, there was strong institutional appetite, including from some of the people here today. This was in contrast with the Obelix deal, where issuance was much more tailored on a longer-term bond with a make-whole, or a bank piece on a soft mini-perm to target the different investor bases.

We've seen a mix of issuance on different structures, tenors and sponsor needs, and the scale is just ramping up. As new people need to be drawn into fibre to be educated to compensate for fatigue from some investor pockets, we're really playing into the need to keep the terms relatively lender-friendly, to attract that new liquidity — from institutionals, and from banks, as they underwrite and recycle or distribute that capital. So that's really a big issuance dynamic due to the sheer scale of the opportunity.

GlobalCapital: Looking again at the fact that fibre comprised 22% of total deals so far this year, Is there a risk of lender fatigue in fibre? If so, why? Is there any fatigue occurring in other hot sectors?

Walker, Crédit Agricole CIB: There is a growing narrative about lender fatigue towards year-end, but what we're seeing is that people care much more about which bank structured it, who is the sponsor, whether it is really tailored as a capital solution for the investor's needs, and what the pricing dynamic is. So what we're seeing is that funds are raising new money, with public spreads tightening, and banks have new budgets. For the stronger quality deals, there will still be additional liquidity, but bringing new people into the sector is a challenge. However, as we see deals maturing and there's more drawn term loan available, there are more mature deals, more history, and more ramp-up. This changes the profile to have more of the kind of capital that needs to be taken. It's a strong and dynamic sector where we'll keep seeing new liquidity coming in to support growth. So while there's some noise around fatigue, I think that for the stronger deals, we'll see liquidity continue to hold up.



Bert Schoen
AXA Investment Managers

Schoen, AXA Investment Managers: I generally echo that, and we do not think fatigue will come in 2023. We would expect the market to evolve to cope with the volumes. What we have seen is transactions becoming larger and larger, but the way they are structured is typically with a cash sweep from year six onwards, meaning they still need to be financed in their entirety quite regularly. It's not obvious how effective it is to refinance every three or four years when you have debt amounts in excess of €5bn for some transactions. For larger companies with an established customer base, we would therefore expect the next iteration of the financing to focus on securing longer-term financing that can stay in place when capex tranches are being refinanced into term financing. As Toby said, because of the high market volume, price levels have been keeping up quite well. This in turn is attracting new investors to the market, so we would expect to see further growth in 2023.

GlobalCapital: Following up on that, do you think fibre could be the new cable, and can we expect the same flurry of acquisition deals, with leveraged type financings, as we saw in cable just five years ago?

David Maisant, Crédit Agricole CIB: I've done a lot of cable deals in the past, so would like to see this happen again, but in fibre. These are points already alluded to by Gilles and Pauline. Everyone is expecting some consolidation in the market. Especially for the smaller players, as Pauline was saying, the capex requirements may be too much to finance by themselves. So I don't think there will be consolidation in every country and for every operator, but I do expect this in some of the countries that don't have a concession-style environment such as the UK or Germany, which have a lot of smaller altnets. This is inevitable once they become a bit cashflow positive, but a bit stuck where they are. Telecom and fibre are fixed cost base industries, so at some point consolidation will make sense from an economic standpoint, especially in the smaller countries.

One question I have is who will be the consolidators? We had cable tycoons, and we know who they are. Will we have fibre tycoons, or will it be the larger telecom companies, or fibre companies if regulators allow? Or will we see private equity firms step into the game and consolidate the market themselves, similar to what happened with towers? I think we'll see a bit of everything, and for us as banks, it's exciting that at some point there will be new financing models beyond what we've done so far. What's more, it's not just fibre, but the whole telecom industry, especially in EMEA. And as Thibault was saying, it's not as profitable as it is in other larger geographies. So that's something we could theoretically think about.

GlobalCapital: To what extent are we set to see a rise in sustainability-linked financing?

Passet, BNP Paribas Asset Management: Sustainability-linked is an interesting feature for financing. For us as an investor, we will not however invest just because there is a sustainability earnings picture. ESG is fully integrated into our investment process, so our in-house sustainability centre reviews each investment opportunity from several points of view. We look at the sponsors, the impact of construction when it's a greenfield development, and of course the due diligence provided by the borrower for the lenders, but we also look at external sources. In addition, we have an external provider, assessing each investment for the level of induced emissions, avoided emissions, alignment with the Paris Agreement two-degree pledge, and Net Environmental Contribution. Sustainability-linked is a nice feature to add to the specification, but isn't sufficient on its own.

Fiastre, Infravia Capital Partners: In the past few years, banks have been pushing their sustainability products capabilities, and there is a real demand from the debt investor side. Two years ago, we implemented our first sustainability-linked financing at funds level, and since then we have done quite a few sustainability-linked financings at asset level. As an investor, for us, sustainability is not just a nice-to-have part of investment strategy. It is a deep conviction that it's a way to increase the lifespan of the assets we invest in and create long-term value. In fact, we have adopted a UN Sustainable Development Goals (SDG) approach. So whether or not we use sustainability-linked financing, we already implement an "ESG roadmap" for each of our assets, and this is approved at the investment committee level. For each investment, we have our own set of KPIs, and our own targets. When we borrow under a sustainability-linked financing, it's a way to associate our financial partners to our own objectives. It is not a must-have, but if it helps improve market liquidity in this very challenging macro environment, we are all set for sustainability-linked financing. I don't think the telecom sector is the most at risk in terms of liquidity, but we're happy to do it when it makes sense to do so.

Gilles Lengaigne
Infranity

Lengaigne, Infranity: Looking at two of our topics — selection and fatigue, it's important to consider who is best in class and what is an investor's exposure to the sector. In our case, we look at our exposure as being telecom rather than just fibre. Fibre tends to be virtuous from a carbon dioxide emission perspective because it's more energy efficient than copper. In the broader telecom sector, the exponential rise in data flows is resulting in higher emissions. As we've decided to align our portfolio with the Paris Agreement, and want to move to net zero. It is going to be very important for the telecom sector as a whole to adopt an adequate climate trajectory in order to continue to be able to mobilise important investment capacity volumes. For debt investors, sustainability-linked financing is one way to ensure we see eye-to-eye with the sponsors, and to make them consider not only their environmental impact but also the social and inclusive economy perspective when it comes to new roll-outs of broadband networks.

Walker, Crédit Agricole CIB: There is a huge drive for liquidity from banks and non-banks in EMEA to be compliant with ESG. We're seeing huge demand for ESG-driven liquidity generally, and everyone is mentioning it as a key criteria to invest. We note that Deutsche Glasfaser was the first large fibre deal with a sustainability-linked margin. This was very well received in the market, including by some of the people in the room, and Crédit Agricole CIB was a financial adviser on that. Although given the ever-evolving ESG regulations, it may be more challenging on the refi. It's obviously part of the bank's management's strategy to be in line with the latest robust ESG standards wherever possible.

GlobalCapital: What's keeping you up at night when it comes to fibre and financing.

Schoen, AXA Investment Managers: The economic environment for Europe is concerning, with a large part of the population facing a decrease in its disposable income. For fibre networks, the penetration rate – the percentage of potential customers that subscribe once fibre is rolled out in their area – is important, and these may be lower than historic rates due to affordability. In addition, fibre companies are also facing higher capex costs and interest costs. The concern is that an increase in tariffs to compensate for higher costs will in turn negatively impact penetration rates. We therefore extensively stress test business models to see what happens if penetration rates turn out lower than what is assumed in the business plan.

Passet, BNP Paribas Asset Management: The challenge is to continue financing this exciting asset class, which we consider essential, while meeting ambitious ESG objectives at the same time. Also, as Pauline mentioned, inflation is set to impact business plans in the future.

Fiastre, Infravia Capital Partners: As an equity investor, what worries us most is lender fatigue and debt market liquidity. We've successfully conducted our refinancing plans in 2022 for a large part of our portfolio — in the fibre space, but also for our other investments. We don't have huge maturity walls looming or critical refinancing needs, so we're pretty happy and hopefully we will be able to sleep at night. What remains to be done in 2023 for fibre is still manageable, because those roll-out projects are granular enough and can afford to stop and start if need be. So I'm not too worried about fibre in the future.

Ledoux, Vauban Infra Fibre & Vauban Infrastructure Partners: At Vauban, we try to pursue an investment strategy in partnership with industrials, as we have done with Axione, as well as with top tier retail operators in France as well as Telefónica in Spain. We have talked about consolidation, while there is still a lot to do. Even in France, when I think about 5G, we are pretty convinced that contrary to the fibre market, we will have to put in place a wholesale model from the beginning to mutualise the infrastructure in the less dense areas. Because the retail operators would have to spend a lot of capex, I don't think they'll be willing to invest. So we have to find a solution such as the National Broadband Plan in the fixed market, and also consider applying this approach to 5G for these areas from the beginning.

Lengaigne, Infranity: The telecom sector as a whole is affected by the negative economic environment, which will weaken some of the main telecom operators' ability to invest. The cost of energy, and also the energy supply, will also impact their critical infrastructure. Will they be able to pass on the cost of energy, and will this impact the resilience of the network, if energy supply becomes challenging? This is the case for fibre, but more so across telecom sectors such as data centres because everything is interlinked.

Walker, Crédit Agricole CIB: Huge deal flow is a great opportunity, but we need to find lenders without year-end fatigue and also need to differentiate tranches to hit different bank and non-bank deployment needs. Within sponsor-available requirements, there will be a focus on the stronger players and also the evolving ESG standards, which everyone loves. But the key ESG standards keep changing, so it's a moving target. I have to recommend our advisory team and ESG specialists here as that's not my speciality. We see a wave of fibre opportunity in the US kicking off, and are hopeful that these would follow the same pattern. But that's a bit beyond the scope of this discussion. And then finally, the refi needs: clients expect refinancings to be cheaper, since by that point the businesses are stronger, more established and with better cashflows. But credit spreads have increased over the year, bank funding costs have increased, and the absolute cost of interest rates has increased. So it's a very hard circle to square. We want to keep our clients happy, show our investors relative value, and tap the banks for liquidity. That is for me the key challenge.

Rosset, Crédit Agricole CIB: What's keeping me up at night is the constant need to be selective and to make the right choices. There are so many opportunities in this market, but also some challenges that you have all outlined pretty clearly in our discussion. It's about credit risk, underwriting risk, supporting the right equity partners that are able to push the right deals, focusing on ESG matters, and dealing with macro challenges the best we can. So now let's remember it's not about fibre, but more broadly about the digital infrastructure space. Europe is seeing large tower deals, a lot of activity in the data centre space, and some netco deals that will offer different opportunities and challenges. So there is a lot still ahead of us, I believe.

David Maisant
Crédit Agricole CIB

Maisant, Crédit Agricole CIB: Something else that's keeping Thibault up at night is the sheer number of deal opportunities. So he needs to be selective, because we just can't handle everything. The opportunity is so huge, and it's such an important sector for economic development. He's right to say it's not just about fibre, it's about the whole digital infrastructure ecosystem. So there's a lot more to come, and I think it's extremely exciting. The financing structures are going to become more varied and diverse from one country to the other, and from one sector to the other. It will be exciting for the banks and also for investors. GC