

Cube Infrastructure Managers

Enablers of change: How telecom and digital transform the infra landscape

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, real estate and infrastructure, spoke recently with **Stéphane Calas**, partner, telecom and digital infrastructure & smart cities, at Cube Infrastructure Managers. Following is an excerpt of that conversation.

What are the trends driving the increasing importance of digital and telecommunications infrastructure?

At Cube, we have been investing in telecom and digital infrastructure for close to 15 years, with the first investments focusing on fiber submarine cables and fiber networks. We see fiber as the backbone for connectivity, while there are other investment opportunities within telecom and digital providing attractive prospects.

The driving trend is the exponential increase of data and the digitalization of our society, including the move toward smart cities and smart infrastructure. As a consequence, there is also a continued growth in demand for data transmission and collection, for high-power computing and cloud storage, and the internet of things (IoT). Across the economy, businesses and the public sector are looking to leverage digitalization to improve productivity, sustainability, and financial and operational efficiency. There are estimates that improved digitalization in four areas alone – mobility, manufacturing, retail and healthcare – could boost global GDP by \$1.2 trillion to \$2 trillion by 2030.¹ Investment in digital and connectivity infrastructure plays a fundamental role in this process.

For this reason, we do not view telecom infrastructure as a silo, isolated from the other investment sectors we focus on. It is an enabler of adaptation, growth and innovation, and is critical for achieving sustainability targets and efficient use of scarce resources. Within the areas we focus on, such as public transport, logistics, EV charging infrastructure and district heating, the digital infrastructure is their nervous system. The increasing use of connected devices for monitoring the activities requires growing investments in new, often dedicated, digital infrastructure and devices, such as wireless communication networks, data centers, smart meters and trackers. It is a transformative infrastructure trend, and one that will continue into the future. This is why we refer to telecom and digital as the infrastructure underpinning infrastructure.

How do these trends translate into specific investment opportunities?

These trends were underpinning the rationale for investing early in Heliot Europe, in our Cube II portfolio. Heliot is deploying and operating one of the largest European “low power wide area” networks – a wireless telecommunication network dedicated to the connectivity of industrial IoT. Heliot's network can collect and transfer data from millions

of small, connected devices and object trackers. This is critical, for instance, for transport and logistics companies to monitor and track moving objects, such as equipment and parcels. There are also many use cases in static situations, for instance, for utilities, using smart meters to monitor consumption. This will ultimately allow companies to optimize resource allocation, reduce operating cost and improve the sustainability of their operations.

Given the breadth of digital and telecom infrastructure, does this impact the size of firms you have to invest in?

Since inception, Cube has been investing in mid-market businesses, which is rather unusual, given that digital and telecom are sectors that thrive on scale. You generally see a handful of large companies operating in the field, with multi-billion-dollar investments being required for coverage and service of the population. We look to find investment opportunities that are under the radar of the larger investors – businesses we can help to transform and scale up with a buy-and-grow strategy. We focus on company fundamentals, where the quality of the management team is paramount. We need to believe in their vision and their ability to execute, as well as their alignment with our own long-term view for the market segment in which they operate. We consider: What is their track record? What are their values and vision? And we position ourselves as their long-term strategic partner, in addition to being the capital provider for the company. We have an active management style, which often leads to adjusting the strategy and strengthening the management teams of our investments as they grow over time.

We were one of the first investors in fiber in Europe, with the investment in Islalink in 2008 and then Covage in 2011. At the time, Covage was pioneering the deployment of open-access fiber-to-office networks, especially in underserved and rural areas. When we were exiting in 2020, Covage had become one of the leading independent, open-access network operators in France, covering both the B2B and residential markets, with more than 45 local networks. It had secured a footprint of 2.4 million homes and had increased its EBITDA by close to 300 percent. Similarly, dst telecom has seen its fiber network footprint increase threefold since our investment in 2018. The company has grown from “under the radar” at our entry to become one of the leading players in Portugal today, operating an open-access network now used by all internet service providers.

Do you see more opportunities within brownfield or greenfield digital and telecom infrastructure?

With our mid-market funds, we invest in companies that have an existing brownfield base, combined with an attractive growth positioning, both through organic growth

opportunities and by aggregating small players. We can invest in relatively small fiber network and data center operators, but we can also look at repositioning “older” telecom infrastructure, such as broadcasting towers, to make them future proof. A combination of investment in both is necessary to create the digital infrastructure for our economy.

Fiber optic has become the backbone of digital infrastructure and is required to facilitate the digital transformation and provide connectivity for other digital assets. We have been investing in fiber focusing, in particular, on local fiber providers in underserved areas.

In terms of pure greenfield fiber opportunities, this is something we actively pursue with our dedicated greenfield telecom fund, Connecting Europe Broadband Fund.

The data center sector is the second area we focus on because there is a massive growth in demand for storage and hosting, further accelerated during the COVID-19 crisis. Given our mid-market focus, we are not targeting the large so-called hyperscalers. We have a particular interest in local data centers or edge data centers – even more so since regulations, such as GDPR, lead to an increased need for local storage and data within the European Union. Edge data centers are smaller units located closer to customers. We see these becoming more important in the medium term, with the development of real-time applications and the IoT demanding closer storage and computing capacities with shorter latency.

The third area where we are active is repurposing older telecom infrastructure, such as broadcasting towers or cable operators. There is great value in helping such assets transition and become more relevant for the economy.

Beyond those three areas, we are generally interested in infrastructure operators that are positioned at the intersection of digital, energy and mobility. This has led us to make early investments in some emerging types of infrastructure, always leveraging this digital angle.

How does Cube's broader infrastructure experience support its approach to investing in telecom and digital?

We have been involved across the infrastructure investing spectrum for decades, which allows us to take a holistic view of the infrastructure and public services industry and of the broader trends shaping it.

By being active in transport and energy, we have seen the increasing importance of digital and telecom in those sectors. In our first portfolio, we had a district heating operator in France, Idex. We introduced smart meters that enabled Idex to become more efficient; instead of sending people to read meters, the data was directly transferred by the device attached to the heating system or the individual boilers.

EV charging infrastructure is another example, being within the intersection of energy, mobility and digital sectors. As the owner of several public transport operators in the Nordics that early engaged in the transition toward electric buses, we initially saw the need for EV charging infrastructure from the mobility side and then, in a second phase, combined with general energy transition needs of the municipalities. This led us to enter the public EV charging infrastructure space back in 2019. Since then, we have made four transactions in the sector in France, the United Kingdom and Norway. Stations-e is one of our investments in Cube III; it is operating multi-service stations that combine EV charging, telecom towers and connected lockers.

Digital and telecom have become enablers of change across infrastructure. In the coming years, we expect a shift in the investment focus away from a pure sector-based approach, to a more thematic approach, as these subsectors increasingly overlap and interact with each other.

Note:

¹ McKinsey Global Institute, *Connected world: An evolution in connectivity beyond the 5G revolution*, February 20, 2020

CONTRIBUTOR



Stéphane Calas
Partner, Telecom & Digital
Infrastructure Team

Stéphane Calas has more than 25 years of experience in investment banking, infrastructure investment and asset management. Since joining Cube Infrastructure Managers in 2010,

he has primarily focused on the telecom, energy and public transport sectors. Stéphane is/has been a member of the boards of portfolio companies such as Covage, G.Network, ViaNovus/Osprey Charging, Heliot Europe and Idex.

CORPORATE CONTACT

Caroline Kragerud
Head of Investor Relations
ckragerud@cubeim.com

This article presents the author's opinions reflecting current market conditions. It has been written for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.

CORPORATE OVERVIEW

Cube Infrastructure Managers is an independent mid-market infrastructure investor joining deep sector knowledge with operational and financial expertise. Since foundation in 2007, Cube has leveraged its operational and financial capabilities to pioneer and transform essential and local infrastructure assets, in areas such as fiber, district heating, transport and EV charging. The firm delivers essential infrastructure assets to local communities and authorities, driving significant growth across its portfolios. Cube has raised an aggregate €4.0 billion (\$4.14 billion) and manages four funds. Cube Infrastructure Fund, Cube Infrastructure Fund II and Cube Infrastructure Fund III are focusing on investments in regulated, brownfield infrastructure. The Connecting Europe Broadband Fund is a fund dedicated to greenfield investments in broadband infrastructure projects. Since its creation, Cube has successfully made more than 40 investments across Europe and will continue to invest in profitable and responsible investment opportunities with strong growth potential.