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INVESTOR WATCH: INFRAVIA AND THE IMPORTANCE OF BEING MID-CAP

06 November 2018 | 14:52GMT

Out of one Paris office InfraVia has built up a loyal team of LPs and staff, raising EUR 2bn over nine months this year. But with mid-cap in its DNA, can it keep expanding along the same lines, asks Colin Leopold

EMEA
Sector: Power
Social Infrastructure
Telecommunications
Country: France
Published: 06 November 2018
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Bruno Candes is sad about Brexit. Not surprising for a Frenchman, you might say. Yet speaking to him over a double espresso and sparkling water at a café in London's King's Cross you get the feeling there is genuine emotion there.

His company InfraVia, the blue-flagged European mid-market fund, is equally bona-fide. People in the market that have worked with the infrastructure manager, which closed its EUR 2bn fourth fund over the summer, use terms such as "trust", "loyalty", and "human quality" in the same breath as "fund deployment" and "origination".

"Even the secretary has been with them since the very beginning," says a long-time adviser.

"They trust each other, it's a real, real team – this is increasingly rare. Loyalty, stability… of course [they] have new investors each time but the basis is the same – they come back, they come back, they come back."

InfraVia Capital Partners funds under management

Fund	Vintage	Target	Final Size	Target Net IRR
InfraVia I	2009	EUR 200m	EUR 168m	12%
InfraVia European Fund II (InfraVia II)	2013	EUR 400m	EUR 530m	12%
InfraVia European Fund III (InfraVia III)	2016	EUR 750m	EUR 900m	10-12%
InfraVia European Fund IV (InfraVia IV)	2018	EUR 1.5bn	EUR 2.0bn	10-12%

Source: *Inframation*

Single in Paris

FEEDBACK

From a single office on the outskirts of Paris, InfraVia has forged a strong brand identity – mid-market, continental, with a focus on carve-outs and drilling into assets from every angle.

Over the past year, this strategy has brought the 26-strong team 100% stakes in three Irish healthcare centres, as well as holdings in the more traditional sectors of transport, renewable energy and data centres in Southern Europe and Switzerland.

In less than 10 years, the fund manager has gone from a EUR 200m first fund target to raising ten times that. So, as a mid-cap, where to now?

“That’s something we are discussing,” says InfraVia partner Candes. “There is no real agenda set but yes – we are still young, we are entrepreneurs, we have ideas, we have energy. Can we diversify our GP business? Absolutely. Which shape and form? Evidently, it’s too early to tell.”

With French compatriots Antin and Ardian going into the US, and Meridiam active there since 2009, the question of transatlantic diversification is on everyone’s lips.

“The US is still very much a private equity-legacy type of business,” says Candes, “and very much an energy market as well. The understanding of this type of risk versus European infrastructure or regulated utilities is probably different on either side of the Atlantic. Having said that, there are new territories such as digital infra and fibre or healthcare infra, where we are starting from the same point.”

The origins of InfraVia lie in AXA’s infrastructure investment unit, where founder Vincent Levita and current COO Laëtitia Féraud worked previously, before starting InfraVia in 2008. Candes joined in 2012.

In September InfraVia welcomed energy project finance banker Benjamin Jeanpierre back to Paris from Societe Generale’s New York office – the fund’s first stateside hire, albeit of a Frenchman.

“We like the idea of someone that has exposure to that market, but we are not taking him on to send him back over,” says Candes, who adds that two further recruits will join InfraVia next year, both from European funds.

The long-time adviser of the fund believes InfraVia’s next move could instead be outside infrastructure.

“For InfraVia, the team is quite small, the next challenge will be to find the right pace, the right way. The way I see things I do believe they are going to diversify their activity rather than going [elsewhere]. They might go for private equity, real estate or greenfield or something else.”

The challenge here will be keeping a tight grip on the InfraVia brand and the loyalty of its LPs.

A second person with knowledge of the company says the advantage of running its operations from a single Paris office up until now has been to retain control of the fund’s expansion – always recruiting people “that fit with their culture”, handpicking them and not seeing many leave.

Mid-cap DNA

Performance at InfraVia has been fairly typical for a European mid-cap fund. Across all four infrastructure funds, it has targeted net returns of between 10% and 12%. “I hope we do more,” says Candes.

But deal origination, in the mid-market at least, is getting more difficult across Europe. “The good old days when you can buy an airport in the market at good old 12-13% return – these days are gone.”

“We are very much mid-cap – that’s what we do,” says Candes. “That’s our DNA. We have a team that is truly expert in finding the deals, scratching beneath the surface, working the angles and that’s truly a mid-cap play. That’s still the prime opportunity as far as InfraVia is concerned.”

Mid-cap is often a more natural proposition for European-based LPs but Candes admits that they are quickly becoming more sophisticated.

InfraVia’s Fund IV EUR 2bn raise was a 100% re-up of its Fund III clients. The LP base has also moved further into Japan (around 14%, says Candes) with more interest from Canada and “some traction” in the US.

Candes would not be drawn on exact figures but according to *Inframation* data top fund LPs currently include Golding Infrastructure, Private Capital Pool (formerly HSBC Trinkaus Pool), and Mercer and UBS vehicles.

There has been increasing demands from LPs to co-invest, says Candes, but as a mid-cap investor, such opportunities are structurally limited.

InfraVia has completed only three co-investments across Funds II, III and Fund IV, he says, and the manager’s average investment currently stands at a relatively low EUR 75m, although this is set to grow.

But there have been advantages to its size.

As risk appetites in Europe and particularly the US have been driven up by ever-larger fund raises, InfraVia has protected its returns by applying the same tried and tested formula to more complex transactions.

“Rather than increasing the risk they take, they have gone for other things,” says the second person with knowledge of the fund. “They go, they identify the sector, they really do their research, and they move very fast. They have done a lot of carve-outs – carve-outs are complex and they [go] mid-market to add value without going up in the risk spectrum. And they normally always go for controlling stakes.”

This buy-and-build approach relies heavily on asset management. But managing first-time investments in sectors such as elderly care homes and oil storage terminals can bring challenges.

Candes was quoted last year as saying digital infrastructure would be the poster child of InfraVia's Fund III.

Earlier this year, InfraVia-owned data center operator Next Generation Data (NGD), acquired in 2016 for USD 133m, began building another floor at Europe's largest data centre at 750,000ft² in Wales.

According to NGD in February, the campus has reached 30% occupancy with 31 data halls but figures this month from a new report referenced on NGD's website describe "ballooning" prices in third-party operated data centres, with the UK, Switzerland and Ireland among the three highest of 15 European countries.

InfraVia's second data centre investment, Green.ch and Green Datacenter, was made in Switzerland in February. Is Candes concerned about unknown risks in these sectors?

"We are fundamental analysis people," he says. "We need to be convinced about the quality of the underlying demand, rather than strict sector. We look through the asset, where does the cashflow come from?"

"The main risk is the 'built it and they shall come' approach whereas you build or acquire a site that does not find its market," he adds. "So you need to precisely understand the structure of the demand and thoroughly examine if your asset can service that demand. It is particularly important as the market is shifting towards the cloud with hyperscale players representing the buld of the take-up."

Caring for Ireland

The focus on underlying demand has led InfraVia into three private healthcare acquisitions since June last year – all in Ireland. ("I spend half my life in Dublin at the moment," says Candes).

The latest of these, and InfraVia's first Fund IV investment, was a 100% stake in the Mater Private Hospital Group, bought from HarbourVest Partners for USD 578m.

Mater operates major acute hospitals in Dublin and Cork, employs 300 consultants, and owns two advanced cancer centres in Limerick and Liverpool as well as out-patient clinics throughout Ireland.

InfraVia used its CareChoice care home business, which it fully acquired for EUR 65m in June 2017, to acquire Knightsbridge Care Village in December that same year – another care home business in the north-east of Ireland. Knightsbridge comprises a 117-bed nursing home, a primary care centre and seven independent living units.

InfraVia said last year it wants to triple CareChoice's capacity from the four facilities with 500 beds.

"We've done nursing homes and acute care because there is still a growing expectation on the quality of services," says Candes. "In our Western communities, we are going to grow older and the government is not equipped to deliver those services anymore. Long story short, we want to make sure the business we invest in will be there in 25, 30 or 40 years although we may exit in five."

This "underlying demand" also rules out other sectors though, such as car parks. "My kids will probably never own a car," he says. "What does that mean for the way we are going to move within cities? I don't know. And when we don't know, we don't do."

InfraVia's focus on building-out assets also helps it mitigate against sector-based and macro risks. "Organic capital is always more accretive than inorganic," says the second person with knowledge of InfraVia, "so if you continue to follow the strategy of finding something that is off-market, or the complex deals, and you buy and build and manage the asset well – I think they should do well."

In more familiar sectors such renewables, InfraVia's focus is now on gaining access across the supply-chain, rather than just at generation level.

The first-mover advantage is no longer there in renewables, admits Candes: "The yield has contracted too much. If you're only buying operating assets – it's too late."

He uses the phrase "energy transition" rather than "renewable energy" and points to opportunities in smart meters and energy storage.

"(In oil and gas storage) we have decided to work towards downstream supply-chain assets rather than big trading hubs. We are convinced from a cashflow point of view that petrochemicals and downstream refined oil products embedded in the supply chain provide greater stability on the cashflow."

And rather than using leverage, InfraVia is looking to digitalisation in nearly every sector to create value.

"If you think leverage is going to create value…" Candes whistles and looks up at the sky. "No, that's not us. We want our equity to create value."

The average leverage across InfraVia's portfolio is around 3x or 4x, he says.

In the care homes space, digitalisation means using online tools to engage with families and residents to share information or improving medication services and clinical processes.

"The fundamental thing is that the levers you do have to create value in the business and as an investor are much more diverse," says Candes. "And you can play with a lot of things: digital is one; buy and build; you can grow; and customer engagement. Customer engagement has been driven by digital."

Sale mode

These value-enhancement levers may be fewer on a toll-road (the A150 in France) or a tram (in Nottingham) though – both core infrastructure assets that formed part of InfraVia Fund I.

The fund manager started a process to sell out of the Nottingham Tram PFI in June. According to *Inframation* in July, InfraVia invested GBP 27.1m of equity into the project, but its 20% stake is was estimated to be worth GBP 30m in the July report.

The project has experienced lower than anticipated passenger numbers, resulting in post-tax losses of GBP 48.5m in the financial year ending on 31 March 2017, said the report. The reduced income means the projected debt service cover ratio for the project's SPV is expected to be below 1.15 until 2029 – putting the company in dividend lock-up, reported *Inframation* in July.

InfraVia is also in selling-mode on two other Fund I investments: French gas company Regaz and a hydropower platform in the French Caribbean.

"It's no secret it's a seller's market, my friend," says Candes.

Inframation sister publication *Sparkspread* reported in October that Schroders is planning to invest in Regaz on behalf of Sogecap, an insurance and pension fund arm of Societe Generale. Initial bids are due for the hydro platform in late December.

Regaz, which owns a 3,300km pipeline network, is expected to fetch an EBITDA multiple of between 10 and 12 times, based on a 2017 EBITDA of EUR 33m, according to *Inframation* in September. According to Regaz's website its 2017 revenues totalled EUR 402m. Candes says the RAB value of the business is just north of EUR 250m.

InfraVia created value in the investment by carving out the gas retail business, selling to the City of Bordeaux, and transforming the remaining regulated holding into a "pure infrastructure play… as the market would like." It ultimately built its stake up to 32% prior to sale.

The second person with knowledge of InfraVia says the company's asset management reputation is so good that its assets usually benefit from "InfraVia premium" at sale, and that Regaz is a good example of this.

Such a premium may come in handy with the sale of InfraVia's Nottingham Tram stake, balancing potential buyer unease around Brexit. Is it time to exit the UK, specifically? The Frenchman nods.