ROUNDTABLE

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Playing offence: value creation in the age of value destruction

Now is not the time to be cutting capital expenditure. Four infrastructure stalwarts discuss adding value in the midst of a global pandemic.

By Amy Carroll and Jordan Stutts

When covid first began its relentless march across the globe in early 2020, infrastructure managers inevitably shifted their focus from value creation to value preservation. "First off, it was about making sure the employees were safe. We then implemented business continuity plans, ensuring that our assets could continue providing essential services to the communities in which they operate," recalls Jamie Storrow, co-head of infrastructure at Northleaf Capital Partners, at our debut value creation roundtable discussion.

In the sectors that were most materially affected, such as toll roads, Northleaf then set about working on cost-reduction programmes, delaying non-essential capex and drawing on banking lines, where required, to ensure liquidity.

"Having sufficient liquidity in place is important," Storrow says. "You need to make sure you are ready to deal with the unexpected amidst a global pandemic, but also that you are ready to take advantage of attractive investment opportunities. Never let a good crisis go to waste."

Indeed, infrastructure managers quickly pivoted from defensive strategies to offensive. "In the first half of 2020, we were focused on taking care of people and of course we were more focused on de-risking than developing," says Olivier Laroche, asset management director at InfraVia Capital Partners. "We carried out intense reviews of business plans with management teams and made sure the liquidity was there. And in three cases we negotiated on covenants with banks. But we have also been able to move quickly back into value creation mode. For example, we have continued to build up our nursing home platform through acquisitions."

Mounir Corm, deputy chief executive at Vauban Infrastructure Partners, meanwhile, is adamant that a crisis is no time to scale back on value creation ambitions. "In the short term, the objective was crisis management – making sure essential assets were providing essential services, despite lockdown measures. In the mid-term, the focus is

Graham Matthews

Chief executive, Whitehelm Capital

Matthews joined the Whitehelm team in 1998 when private ownership of public infrastructure was just getting started. Since then, he has sat on many company boards and has been instrumental in delivering improved operational and financial performance through active asset management. He previously held senior roles in the Australian Federal Treasury and represented Australia at the IMF in Washington.

Olivier Laroche

Asset management director, InfraVia Capital Partners

Laroche joined InfraVia in May 2016 and is responsible for delivering acquisition plans and operational improvements, seizing value creation opportunities and managing operating risks. He sits on three InfraVia portfolio company boards. Laroche arrived at InfraVia from consulting group AT Kearney, where he worked for 15 years in the firm's Paris and Dubai offices advising in the infrastructure and transport sectors on corporate strategy, due diligence and operational improvement.

Jamie Storrow

Co-head of infrastructure,
Northleaf Capital Partners

Storrow is co-head of Northleaf's infrastructure investment programme and is a member of the investment committee. He is primarily responsible for origination, due diligence and asset management, serving as director on several portfolio company boards. Prior to joining in 2010, Storrow worked with Scotia Capital and Morgan Stanley in London, where he specialised in the principal acquisition, financing and securitisation of assets across a range of sectors, with a focus on aerospace.

Mounir Corm

Deputy chief executive,
Vauban Infrastructure Partners

Corm is a founding partner of Vauban Infrastructure Partners and was previously deputy head of Mirova General Infrastructure's activities. He has worked on over €2 billion of equity investments across European core assets and is a director on a number of boards.

on minimising opex, certainly. But we are absolutely still investing in capex."

Corm believes it is essential to maintain capex plans as long-term holders of assets. Indeed, the global pandemic has done nothing to shake the firm's long-term focus. "We have carried out a systematic review of our entire portfolio, in partnership with academics, to find out what the long-term legacy of covid could mean for those businesses," he says. "The two major mega-trends that have emerged are the digitalisation of infrastructure and the energy transition. As we move into 2021, we are concentrating on developing 'beyond-covid' plans and are now deploying specific measures to enhance portfolio companies. Now is not the time to be playing defence."

Limited partners, meanwhile, have been supportive of the need to continue deploying throughout the crisis.

"The relationship between shareholder and management in infrastructure is very different to the corporate world," notes Graham Matthews, chief executive of Whitehelm Capital, pointing to a Nordic corporate carve-out the firm completed a few years ago. "When we shared our 100-day plan with management – explaining our capex development strategy – they were initially bemused. They were so used to feeling the pressure to cut budgets and generate short-term profit. It was a relief to be working with investors focused on long-term value creation."

"It is all about good communication," adds Corm. "Show your LPs how resilient the asset class has been. Show them the strength of your portfolio. Yes, there has been some impact on mobility, but utility assets, digital infrastructure and social infrastructure in PPPs are all performing well. That makes it far easier to talk about investing for the future. And anyway, LPs get it. Most of the institutions in our funds are pension managers and insurance companies. They have long-dated liabilities. We are not in private equity where GPs are short-term sighted and wanting their money back right away."

InfraVia even set up dedicated covid reporting for investors, initially on a weekly basis – detailing measures on people safety, operations impact and valuation impact.

"Once they understood that people were safe, that liquidity was in place and that there was no issue drawing on short-term facilities, the conversations

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JAMIE STORROW
Northleaf Capital Partners

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>
> **GRAHAM MATTHEWS**
> **Whitehelm Capital**

quickly went back to how we were planning to create long-term value," recalls Laroche.

Time is money

And, of course, there are numerous long-term value creation levers on offer, depending on the nature of the asset. "We complete a lot of tuck-in acquisitions, which help grow and diversify our investments," says Storrow. "We also spend a lot of time looking at contract extensions, asset refurbishments, as well as upgrading technology and sometimes improving management. It very much depends on the sector but there is always a lot to do."

Market conditions can also dictate which value-creation strategies are most pressing. Vauban, for example, has prioritised refinancings in 2021.

"Liquidity is very high in some sectors, despite covid, and we are seeing an incredible level of pricing in some sub-sectors and geographies such as Nordic utilities," says Corm. "We will refinance every asset we are able to as a way of creating value." Vauban is also looking to extend debt maturities to de-risk and create long-term value. Management of data is another key theme for the firm, which is bringing its management teams together to discuss both the opportunities and the risks, in terms of data management and data privacy. Finally, Vauban is laser focused on carbon reduction for all assets.

For Matthews, meanwhile, the most exciting area of focus is the intersection between sustainability and technology. Whitehelm, for example, recently completed a detailed climate-change assessment on all assets, right down to site level. "One of our Nordic assets operates across 208 different sites. The level of detail we were able to assess just couldn't have happened five years ago. It has been made possible by developments in technology," he says.

Indeed, tech advancement is a critical source of value creation, which is why InfraVia decided to add a growth equity and technology business line to its infrastructure platform last year.

"We see a convergence between infrastructure and the B2B technology business line and we believe having a foot in both camps will generate massive value-creation opportunities in the future," argues Laroche. The growth fund, which has raised €400 million to date, will be invested by a separate team because the investment ecosystem is different. "But we see a lot of potential for cross fertilisation – helping our infrastructure assets operate more efficiently, improving internal corporate processes and providing a better user experience," Laroche adds. "There is a whole new world in front of us and we want to be part of it."

Tech developments can be employed to transform the growth path of new investments, or to give a new lease of life to a legacy asset. "There are always new ways of looking at an asset – taking advantage of what we have learnt in other companies and sectors," argues Matthews. "If anything, technology has accelerated that trend, creating new ways to add value."

Corm agrees that infrastructure managers must always be proactive, even with legacy core assets. In particular, it is important to view every portfolio business through a digital and energy transition lens. He points to the use of data analytics to manage traffic flow on highways and adding EV charging infrastructure to car parks.

"It is incredible just how much option value you gain through ongoing ownership. Time creates opportunity," says Storrow, offering the example of a wind farm owned by Northleaf that is reviewing battery storage opportunities at the same location. "Who would have thought that would have been a possibility when we first invested in the asset a decade ago? We also didn't think turbine prices would drop to the point where we would be able to add more capacity."

In addition, Northleaf has been advancing biodiesel storage at a tank farm. "You always have value creation plans in place when you make an acquisition. But as sectors evolve you can update those plans," Storrow adds. "It might be technology related. It might be cost related. Or it might be related to regulatory programmes. Carbon capture units, for example, have become economic, largely due to policy."

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OLIVIER LAROCHE
InfraVia Capital Partners

The ESG effect

Of course, the other key value creation lever involves environmental, social and governance measures. "Infrastructure is a sector where there is no longer any debate as to whether ESG adds value," asserts Matthews. "Part of that is about risk mitigation – environmental resilience. But there are also plenty of areas where ESG practices can help drive better returns."

Matthews cites a Whitehelm tank storage asset that included an undeveloped land bank in the Netherlands. "The original business plan was to build more tanks," he says. "But after a thorough assessment, we decided to build one of the country's largest solar farms instead. That wasn't what we initially intended but it proved the best way to maximise value whilst also improving the asset's ESG credentials."

Matthews also points to the value creation inherent in promoting workplace diversity. "That is all about improving decision making and generating better returns for investors over time."

Corm agrees that there is substantial value to be found in ESG activity, including the opportunity to get better margins on financing when that financing is linked to ESG KPIs. He also believes that linking compensation packages to ESG performance can be a powerful motivator at both a manager and portfolio company level.

"Last but not least, there is a huge amount of value to be created investing in the energy transition," he says. "That ranges from the physical resilience of assets – the returning value of concession-based assets, for example, will increase if you can prove resilience to two-degree scenarios. Investment in the energy transition can also make assets more efficient. If you don't implement these measures you are adding risk because the acceptability of the assets will decline, while conversely there is significant value to be created by being proactive. We are targeting carbon reduction measures across all our assets, deploying significant capex, for example with our car parking business Indigo, with a view to making them carbon-neutral by 2025." ■

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MOUNIR CORM
Vauban Infrastructure Partners