

KEYNOTE INTERVIEW

Pursuing full fibre for all



*The fibre rollout in France and other European countries may be nearing completion, but there are still compelling investment opportunities to be found, say InfraVia Capital Partners' **Coralie Durbec** and **Olivier Raugel** of portfolio company IFT*

Q What is the attraction of fibre as an investment in Europe?

Coralie Durbec: As infrastructure investors, we are focused on long-term trends that bring essential services to businesses and households, and we consider fibre to be one of those. Looking ahead over the next 10, 20 or 30 years, we expect fibre to continue to be the dominant telecoms technology, as countries across Europe have decided that it is the best way to bring connectivity to people in most geographies.

Other technologies, such as 5G, will of course be complementary in some very specific areas, but fibre is clearly already established as the leading access technology.

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Q What makes France a particularly attractive market?

Olivier Raugel: When InfraVia started investing into French digital assets, ADSL was the dominant technology, so there was still a lot of capex investment potential, as well as a rising take-up rate. But the thing that is characteristic and very specific about France is the very protective regulation.

Since the French government decided almost 15 years ago to cover the whole territory with high-speed networks, and fibre in particular, all decisions made by the regulator have

supported that goal. We have seen that shine through in disputes, settlements and new regulatory decisions confirming existing decisions.

The result is very stable regulation, which makes it easier for everyone to invest. That has accelerated the fibre rollout across France. Commercial network operators have invested in the network and have pushed their products very strongly, which is why France has enjoyed such a high take-up rate for fibre.

Q Where is France now in its fibre rollout?

OR: When InfraVia first invested in IFT four years ago, there were seven million fibre-to-the-home (FTTH) lines and 2.3 million subscribers in

France. Today, we have 37 million lines and more than 21 million subscribers. By way of comparison, there were 28 million-29 million subscribers with traditional ADSL connections, so we have had a very efficient rollout and we are now in the final stages.

Q What does the landscape look like today, and where are the remaining opportunities for fibre investors?

OR: Fibre in France can be divided into three areas. First, there are the high-density locations, major cities where the telecoms operators initially invested heavily in their own fibre networks. Then there are medium-dense areas, smaller cities and large towns where it made commercial sense for operators to invest their own money. The last area is made up of smaller towns and rural locations where local authorities decided to offer subsidies to support the rollout.

While we are close to the end of the rollout, it is always a challenge to incentivise those final connections. In rural areas, the population is sometimes a little afraid that they will have to pay more for fibre, so there is work to do to educate and inform people and build trust. But in many French departments, the local authorities want to connect all premises, and that means all homes, no matter how remote.

CD: To us at InfraVia, the medium-dense and low-density areas are the most attractive. The very dense areas have already been upgraded by telecom operators, and there is some risk of overbuild. Elsewhere, the regulation supports the presence of just one network. For infrastructure funds looking for monopolistic long-term cashflows, the medium-dense and low-density areas are the ones that still provide opportunities.

Our business in France is not exposed to the capex risk of building networks in those locations, but instead buys lines or remote radio units from

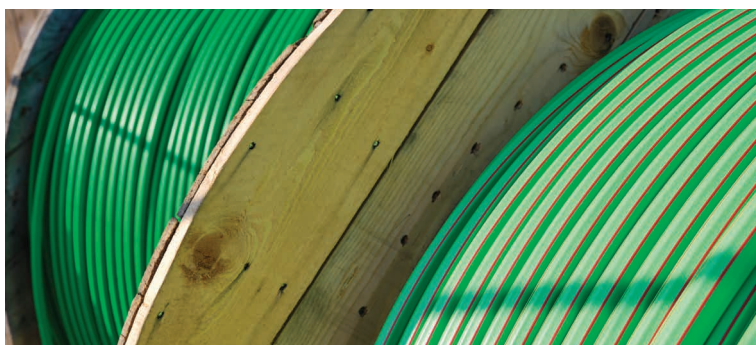
“There is work to do to educate and inform people and build trust”

OLIVIER RAUGEL

infrastructure developers and then rents that capacity to commercial operators. It is for the infrastructure developers to have done their homework on the area, and their bids for building the network should reflect the topology of the houses in the area.

Q Is the approach the same for investing in other European countries?

CD: For other assets we own in Ireland, the UK and Poland, we also build the network. Each country has its own regulation and its own specifics, and



Q Beyond the economic rationale, how do investments in fibre stack up on ESG goals?

CD: As an institution, we have selected seven core sustainable development goals (UN SDGs) that we want to focus on. Every time we make an investment, we need to map how the investment contributes positively or negatively to those SDGs.

Among those goals, one is to provide decent work and economic growth, another is innovation and infrastructure, a third is on reducing inequality, and a fourth targets sustainable cities and communities.

Thinking about fibre, particularly in the recent context of covid and lockdowns, the technology has proven its contribution to economic productivity by bringing essential connectivity to companies and households. There is the benefit of digital inclusion for people in less advantaged communities too, as well as bridging the digital divide between smaller locations and bigger cities. And there is fibre’s role in driving big advances in technology. Fibre has a positive impact on other communications infrastructure, for instance, such as data centres and mobile towers. It is a whole ecosystem that fibre enables.

From a climate perspective, people often argue that digital infrastructure increases CO2 emissions because of the level of usage that comes along with it. However, if you think about it in terms of a given amount of data consumed, compared with 5G or 4G, fibre is the most energy-efficient telecoms technology and less energy-consuming than copper.

France is one of the most regulated countries. But that regulation is seen as an advantage.

For instance, when we refinanced IFT last year, we spoke to a lot of lenders across Europe in the fibre space. At the time, we were a bit worried about fibre fatigue, but what stood out was that lenders like investing in France specifically because of its regulatory stability and protection. There is no overbuild in the medium-dense and low-density locations, your costs are known, and it is very stable.

“France is one of the most regulated countries. But that regulation is seen as an advantage”

CORALIE DURBEC

Q You often work alongside major telecoms groups.

Why are those kinds of partnerships important?

CD: We are partners with Virgin Media O2 in the UK, Iliad in France and Poland, and Eir in Ireland. We see having a strong anchor tenant across our geographies as absolutely critical.

First, it derisks your take-up curve. If your telecom partner has a certain market share and you roll out the network in a given area, you know that you should get at least that number of users, which makes starting up a lot easier.

Second, it brings you scale, which in turn gives you more leverage when it comes to your capex programme. The bigger you are, the easier it gets to invest, while the strong management teams of larger operators also helps with visibility on capex and being careful around planning. Across Europe, we have seen platforms that launched on their own struggling to reach the size needed to strike wholesale agreements – and having wholesale agreements is critical if you want to have other operators on your network to further derisk your utilisation curve. Scale can also help you with in-market consolidation.

Finally, a strong anchor tenant means a strong brand, which can help from a marketing perspective.

Q Besides capex for building or buying fibre networks, what are the other major investment requirements?

OR: At IFT, we receive thousands of orders every day from retail operators and must pass those on to the infrastructure operators. That requires a large and sophisticated IT system.

When our retail partner sells a plan to a subscriber, we have to identify the relevant infrastructure operator and pass on the order to connect the subscriber from the street. You need to be able to locate the precise cables and manage all these orders in real time,

seven days a week. That means we also need really robust cyber-risk protection; if we cannot deal with orders for a day or two, our clients will lose subscribers and will lose trust in us. At IFT, we have 30 people, and nine of those are in charge of the IT. After the investment, that is our main cost.

Q How else are you using technology to improve your activities?

CD: We have internally developed digital tools and big data analysis capabilities. We have aggregated national data to enable us to map FNI network versus other networks on a home-by-home basis, by technology (FTTC, FTTH, cable) and in terms of its evolution over time. This helps us to understand the evolution of FTTH take-up by zone, and the competitive landscape. Based on this analysis, we have designed the most efficient roll-out possible, by prioritising areas that maximise take-up and pay-back in the short and long term.

Q Do you see more opportunities around Europe, and what are the essential requirements?

CD: We are involved in new fibre deployment as well as in-market consolidation. Consolidation is a good way to accelerate the business plan, but you have to compare capex figures for new networks with the purchase price for existing operators very carefully. If, instead of building, we can buy an existing network without paying a high premium, then that is a good thing.

On top of that, we are still looking at new opportunities across Europe. We are not a core infrastructure fund, so a yield-only play is not for us. We need a platform that still has capex potential. We look for stable cash flows, which means a de facto monopoly, or at least being comfortable with the overbuilding risk. And that is usually addressed by having a strong anchor tenant. ■