IJGlobal
A Green Street Company

Fibre fiefdoms: here to stay?

Arran Brown

17/04/2019

Fibre-to-the-'x' deals – substitute x for premises (FTTP), home (FTTH) or office (FTTO) – are increasingly visible in the M&A space, and in the last few weeks several deals have seen ambitious new players test the waters with some success. As the old guard is finding itself increasingly squeezed and less able to afford the capex outlay in, for instance, rural areas, opportunities have opened up to those with the means to pick up the slack.

Driving demand for reliable access to fibre networks at increasing speeds is our growing reliance on connectivity along with new services and content – particularly video streaming, cloud computing, and potentially telemedicine.

The UK's Ofcom defines access of downstream (network to endpoint) speeds between 10Mbps as broadband, 30Mbps+ as superfast broadband, and 300Mbps+ as ultrafast broadband. Full fibre, meanwhile, can reach gigabit speeds (1,000Mbps).

So it is hardly surprising that fund managers and other infrastructure investors are moving to carve out new market shares by offering superior data transfer speeds.

Old guards and upstarts

Internet prices in the UK are low compared to elsewhere in Europe – this is the result of price competition between the market incumbents such as such as Virgin and BT. However, an historical lack of government pressure on the these companies to invest in their networks has resulted in a feeble 6% of UK properties enjoying full-fibre connection.

The comparative backwardness of UK full-fibre connectivity is illustrated by neighbouring European countries. France has a 28% penetration, while the Netherlands boasts 32%. But even these figures pale in comparison to Spain (71%), Portugal (89%), and Asian leaders Japan (97%) and South Korea (99%).

Typically, service providers have financed cabling outlay. Broadband network architecture amounted to connections from telephone exchanges to roadside cabinets – from here copper wires connect to the premises. Exchange to cabinet connections in the UK are almost universally fibre today, but the opportunities lie in 'the last mile' – the connection to the end-user.

Virgin and BT have pledged large sums following government pressure. Virgin launched a programme in 2015, 'Project Lightning', that aims to spend £3 billion ($3.92 billion) to connect four million homes. BT meanwhile is to spend £3-6 billion connecting 10 million homes.

Much of this work will be 'low hanging fruit' in areas contiguous with existing fibre networks, and largely confined to densely populated cities such as London, Birmingham and Manchester.

And yet, the Department for Digital, Culture, Media & Sport estimate £30 billion is required for fixed fibre installation – though one estimate for EU-wide implementation stands at €150 billion ($169.38 billion), while another suggests a

All content © Copyright 2024 IJGlobal, all rights reserved.

staggering €500 billion.

It is in this context that alternative networks (altnets) have staked claims in niche spaces, establishing mandates and territories, whilst infrastructure investors such as funds and pension groups have opened their war chests to finance expansion.

NDIF's designs

Many of the altnets are vertically integrated – they both own the infrastructure and provide internet services. This engenders higher returns, but also higher sales and marketing costs, and higher counterparty risk (individual broadband customers).

The holy grail for long-term fibre owners is a move to a wholesale model, with far better counterparty risk meaning ISPs signing lengthier contracts, albeit with lower margins.

The National Digital Infrastructure Fund (NDIF), the fund managed by Amber Infrastructure and designed to catalyse private investment in digital infrastructure, has raised £200 million to date (of which £150 million from the UK government). It is investing in early stage altnets with a view to grow them to wholesale providers in the long-term.

NDIF's most recent acquisition, toob, is a regional fibre start-up planning to deliver gigabit speeds to 100,000 premises by the end of 2021. Led by former Vodafone directors, the Portsmouth-based company is to start developments on its home turf. It nurses ambitions to expand to other cities, hoping to connect as many as one million homes, businesses and community organisations.

The £75 million investment in toob mirrors similar equity investments NDIF has made in niche opportunities including:

- Community Fibre – a £25 million investment in a full-fibre provider specialising in social and private housing across London
- Airband Community Internet – £16 million in rural fibre owner and internet provider benefiting from government subsidies
- Nextgenaccess – £22 million in a fibre developer supplying infrastructure catering to larger data consumers (businesses, data centres)

Altice and the triple alliance

In late March (2019), Altice welcomed a triple alliance of investors taking a 49.99% in its French FTTH subsidiary business in a deal worth €1.7 billion.

The consortium partners are:

- OMERS Infrastructure – 58%
- AllianzCapital Partners – 27%
- AXA IM – Real Assets – 15%

The fibre company SFR FTTH will deliver fibre to 5 million homes in medium and low-density areas (mandated by the government), with a roll-out to be completed in 2023. The deal marked OMERS's first foray into telecoms excepting a 2004 investment in a satellite JV.

Explaining the motivation for pursuing the deal, OMERS head of Europe Philippe Busslinger said: "This partnership is a once in a lifetime opportunity to invest in the development of infrastructure allowing the provision of data services to households, which is increasingly recognised as an essential service. The economics of this deal are mainly driven by the number of homes that take up fibre. In an affluent country like France, the question is not whether households will migrate to this technology, but when. As has been the case in the energy and utilities space, telecommunication operators are increasingly considering the unbundling or co-financing of their infrastructure. These strategic

All content © Copyright 2024 IJGlobal, all rights reserved.

partnerships to develop or upgrade essential infrastructures are, in turn, well-suited to investors who have buy-and-hold mentalities."

Meanwhile, additional opportunities are on the horizon as Altice prepares for the sale of its Portuguese FTTH network.

Whitehelm captures Fullerton

Whitehelm's Smart Cities Infrastructure Fund (SCIF) made its maiden investment earlier this month (April) with a $75 million investment in SiFi Networks America.

SCIF and SiFi are to begin construction on a large privately-financed open-access fibre network in the city of Fullerton, California. Two ISPs – Ting and GigabitNow – have signed to use the network.

Whitehelm is currently in discussions with the city to use the network for smart traffic control, CCTV, and floor monitoring and prevention.

SCIF's first investment in Fullerton will:

- upgrade internet speeds and accommodate growing demand from households and businesses
- facilitate proliferation of new smart cities solutions in traffic control, street lighting, and emergency services
- provide a platform for expansion of 5G mobile and internet of things (IoT) networks

Dutch institutional investor APG invested €250 million in the first-of-its-kind, single-LP fund last November (2018).

New lords?

Questions remain over the whether or not the fibre fiefdoms will be replaced in the coming years, at least according to some. Last year (2018), Three UK chief executive David Dyson made headlines by claiming the capacity and reliability of 5G networks would obviate the need for fibre. Instead, he claimed customer levels of mobile data use will experience an explosion – by as much as 13 times.

5G download speeds could theoretically reach as high as 20Gbps – a staggering improvement to the speeds typical of fibre networks today.

"Maybe not for the whole country, but certainly a significant majority of the country, I strongly believe 5G can offer a good enough home broadband experience for people to effectively ditch their copper [or fibre] connection," Dyson said.

One investment director in the space responded by pointing out that enormous amount of fibre will still be required in order to make 5G a functional technology. The densely packed cell towers transmitting 5G frequencies will all need to be underpinned by fibre networks.

They also highlighted higher costs per megabyte on purely wireless systems with extensive energy demands, and a study showing user preference for wifi networks (ever reliant on fibre).

The director also suggested that the transition to 5G will not necessarily entail an abrupt discontinuity between, for example, 4G and other communication modes we now take for granted. Transition will be incremental.

Opportunities remain, then, to assume positions in proliferating strategic cell-towers – as many as 200,000 may be needed – but also in their fibre lifeblood.

All content © Copyright 2024 IJGlobal, all rights reserved.

Thank you for printing this article from IJGlobal.

As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.

*If you have been given this article by a subscriber, you can contact us through **www.ijglobal.com/sign-in**, or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*

All content © Copyright 2024 IJGlobal, all rights reserved.