

# IJInvestor Awards 2020 – Outstanding Individual Steven Sonnenstein, Digital Colony

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Anybody who knows digital infrastructure luminary Steven Sonnenstein will nod sagely as they learn he has been voted Outstanding Individual in the *IJInvestor Awards 2020* for his achievements at the bleeding edge of Core+ infrastructure investment.

The judging team for this individual award – sponsored by infra/energy recruitment specialist One Search – was won over by the deals he worked on... but primarily for the role he played championing an emerging asset class in the digital infrastructure arena.

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Judges describe Steven as “a force of nature” and “an infrastructure professional with the vision to identify new sectors, but – more importantly – the courage to pursue them relentlessly”. Another went as far as to say: “Steven has forged a path that others will follow, carving out new markets and myriad opportunities. People will continue to follow his lead for years to come.”

It’s been a long path to bring Steven by the age of 45 to win such a prestigious, international award that recognises his achievements in a sector that has attracted some of the sharpest minds in the financing community.

## The early years

Having started his working life as a chartered accountant in the Big 4 in 1996, it was not long before he stood out from the crowd. Two minutes in his company and you know you’re talking to a family man who knows exactly what he wants out of working life as he radiates laser-precision focus.

His career saw an early start in EY and PwC before going to Brookfield Asset Management in 2006, joining the bridge lending and special situations group before swiftly – in the first few weeks – being drafted on to the infra team.



“It was a matter of happenstance,” says Steven. “I started at Brookfield when it had just acquired the national transmissions grid in Chile – a company called Transelec – which they bought in partnership with PSP Investments, CPPIB and British Columbia Pension fund.

“I was in the office and somebody comes to see me, someone I had heard of, but had never met. He says to me: ‘Hey, your name’s Sonnenstein, right?’ I admitted it and he says: ‘I hear you speak Spanish...’”

And so began his first big adventure in infrastructure... from ascertaining his language skills on the Friday of the July 4<sup>th</sup> long weekend in 2006, bags were packed and by Tuesday he was in Santiago on a two-week mission that would last for the best part of a year.

“It was a series of work that needed to be accomplished and I integrated well with the team,” says Steven. “After a couple of weeks, I was told they needed an interim CFO and – guess what – I’m staying in Chile.

“This was arguably one of the best experiences of the early part of my career. I was literally thrown into the deep end. I woke up one morning in Santiago, looked in the mirror and said: ‘Oh my god, what have I done? How did I end up here?’”

He promptly launched into a series of refinancings, raising debt in the public markets, while also spearheading M&A activity and big-growth projects.

“It was a tremendous experience,” says Steven. “I was in charge of 30 people and a treasury department managing \$100 million of cash. It was a great time and I spent four good years at Brookfield progressively involved in more infrastructure projects.”

This was followed by a brief stint in industry before returning to the fold.

## The PSP years

Steven returned to the infrastructure investment community in 2012 as a senior director at PSP Investments where he worked until 2018 under Montreal-based chief executive Gordon Fyfe.



“Gordon took PSP from nothing to around \$100 billion under management,” says Steven. “It was a great place, really entrepreneurial – the sort of place where someone could spread their wings and pursue unique ideas.

“You join an infrastructure team and you have people doing energy, transport, renewables – which I did... but I quickly realised that if I wanted to differentiate myself, I had to come up with a unique idea. I woke up one day having spent some time looking around and speaking to a few of our partners and said: ‘Why aren’t we doing telecom infra?’”

It was at this point that Steven launched himself on the path that would bring him to Digital Colony and establish him as an industry pioneer, building a reputation as one of the most impactful investors in the digital infra arena.

“I’ll never forget this,” says Steven. “I went to Jean Daigneault and Patrick Samson – two lead MDs at PSP – and asked them what they thought about tower infrastructure.”

It took some quick talking, but Steven won them round... even though it did earn him a caution that simply tagging the word “infrastructure” after something he wants to invest in does not automatically qualify it. And so he became an evangelist for digital infra in his bid to bring it into the fold.

“I made my case and in 2013 I started looking at TDF in partnership with APG, competing bidders against Digital Bridge led by Marc Ganzi and Ben Jenkins,” says Steven. “Marc and Ben got exclusivity on the asset first, then lost it.

“I stayed close and swooped in. I called in Brookfield and we formed a consortium – APG, Brookfield and PSP – and we acquired the asset, signing on 6 November 2014, closing March 2015.

“It was PSP’s first telecom infra asset investment and it was not without a lot of resistance internally, facing a lot of challenges going through various committees and the board.”

Steven recalls with a grimace: “I’ll never forget that board meeting where the investment committee absolutely grilled me – why towers, is it infra, is it not private equity? And then there was the question over streamlining the head count,

which is never going to be easy in France.”

It was then that PSP bought into Steven’s vision and promoted him to head of digital infrastructure and telecom infra. This was also when he solidified his friendship with Marc Ganzi – now his boss at Digital Colony – who, having lost out to him on TDF, picked up the phone to salute the victory, saying they should work together on future deals.

“After that call we started looking at deals together,” says Steven. “In total, we looked at a couple of billion dollars’ worth of transactions with me on the PSP side and him on Digital Bridge’s side. We went pretty far on a few deals, but the one deal that we closed together was Vantage Datacenters which signed in January 2017.”

PSP committed to 45% of the equity in partnership with TIAA CREF and Digital Bridge, on a deal that ended up each party holding almost equal three-way ownership.

Steven recalls: “This was PSP’s first data centre deal. Again this was met with tremendous challenge and adversity. I still have lashes on my back from the grilling I got.

“Everyone was insisting it was real estate, but the real estate guys didn’t agree. Private equity said it fell in their bucket, but the returns were too low and they don’t get out of bed for less than 20%, and the infrastructure team said it wasn’t infra.

“This is where I pushed the envelope and made the case internally saying it doesn’t matter where it fits – it’s a good deal and a good asset. I said we would earn a mid-teen return on Vantage and it’s good for the fund, it’s not too big and there’s huge growth potential.

“Daniel Garant, the CIO of PSP – a great man for whom I have a tremendous amount of respect and who is now at British Columbia Investment Management Corporation – said we would put it in the CIO’s portfolio and not allocate it to an asset class. Fast forward a year or so and he put it into infrastructure.”

PSP exited Vantage this year at north of 30% IRR.

“This was a series of deals,” says Steven. “I put well over \$1 billion, probably \$1.5 billion, into this sector and having negotiated a shareholder’s agreement against Marc Ganzi, he said – and I quote – ‘I will not go through that again, we should talk about how we can join forces’.”

This discussion was nicely timed as PSP was undergoing a transition with Gordon Fyfe leaving the firm and its adoption of a more passive role... which was never going to suit Steven’s nature.

And so began his journey with Florida-based Digital Bridge – the predecessor company to Digital Colony – which he joined in spring 2018.

## Digital Holdings / Digital Colony

“I like to think that I’m a bit of a fore-thinker, an idea-generator, an entrepreneur... and where better to do that than with the guy who is *the* leading digital infrastructure idea generator in the world,” says Steven. “Marc Ganzi is a legend in his own right and to be able to join his team and partner with him is a perfect fit.

“Here at Digital Colony, no idea is a bad idea. It is never about the no, it’s always about the how. And that’s my philosophy too.”

Steven adds: “We have done a lot of great things. We have raised our inaugural fund and I have deployed well over a third of it into five platform investments, doing a lot of different things that I would never have been able to do at PSP.

“We created a Brazilian tower platform from scratch; invested in Canadian dense urban metro fibre, and merged it with another company that we acquired. These are pretty edgy and there’s a lot of risk involved – but what better place to do this than where you have the resources and the team, and the ability to bring your own ideas to fruition.



“However, the most exciting thing we have accomplished over the past year is creating a new sub-investment class in infra – outdoor media infrastructure.”

The *IJInvestor Awards* committee heartily agree with this statement and awarded Digital Colony the trophy for Redefining Infrastructure category for North American for this innovation.

“This was almost two years in the making,” says Steven. “The infrastructure that supports billboards is something that has always attracted my attention. Marc Ganzi had invested in billboards in the early 2000s in Brazil, as well as in the US in the mid-2000s. But that was investing in the billboard business.”

Steven had a different slant on billboards: “I look at the infrastructure and I look at the land. There are hundreds of these on the sides of highways and buildings. Why can’t you own just that? Why do you have to own the advertising company and be in the advertising business?”

“I put a team together internally and we spent almost a year researching it, looking at it globally, in North America, LatAm, and in Europe... and we landed on Europe as the best place to start.

“We found a management team, spent time getting to know them and build the relationship, acquired the management team and – having scoped out the market – we found a series of assets we could roll up.

“We closed our first portfolio on 31 January 2020... and just a short time later London entered lockdown due to coronavirus and we were all sitting around here saying: ‘Oh my word, what have we done?’”

Covid-19 concerns aside, Digital Colony has absolute faith in this sector as an evolving sub-sector and the asset – Wildstone – had at launch slightly fewer than 2,000 panels in play.

“What we do is we acquire the physical structure of the billboard and the land,” says Steven. “These are long-term contracted assets with good quality credit counterparties on 20-25-year lease terms with inflation escalators.

“If that’s not the definition of an infrastructure asset, I don’t know what is!

“There are high barriers to entry as it is difficult to replicate. You can’t just wake up one morning and say you’re going to roll out 2,000 billboard towers – it is not something you can do overnight.”

But owning the assets is just the first step: “We then undertake a programmatic digitisation of the portfolio with our clients. This is the digital infrastructure aspect.

“You go to Clear Channel or JCDecaux and tell them you’re managing 500 of their sites that are all paper and paste... why don’t I digitize them? I underwrite the digitization and put up the screens. Then we enter into a contracted rental uplift with them, right at the outset. We agree it is going to go from X to Y and, sure enough, you are increasing your yields six to seven fold.

“Your traditional paper-and-paste billboards fetch a fairly low annual rent. Once you digitize it, your clients – the large media tenants – are able to sell six to ten adverts per minute... instead of one for a four-week period. Even better, you don’t need to send someone out with a roller to take down the old poster to replace it with another.”

And that’s not the end of the benefits: “You connect each of the billboards with fibre so you can now attach a radio antenna on these physical structures which are all along highly-travelled corridors or high-traffic areas and with the advent of 5G and the tremendous need for network densification – what better location to do it?”

Having started with fewer than 2,000 sites, the team is on target to have grown to 3,000 by the end of this calendar year.

“We have almost doubled the billboard cash flows of the business,” says Steven. “We measure this in BCF. In towers, it is TCF, but we coined the phrase Billboard Cash Flow and it is really exciting.”

As to the impact of Covid, this was negligible as clients continued to pay for an infrastructure asset that is core to their

businesses.

“Without us, there is no ad business,” says Steven. “There is a symbiotic relationship between us and the media tenants. They rely on us and we rely on them. Added to that, demand is so high that if they were to shut their business, there are so many people behind who are interested to get into it.

“If you look at outdoor advertising, it fragments into three sub-sectors. You have roadside – which is what we invested in – and you have indoor which is shopping/convention centre, and then you have transport, which is anything from rail through to buses.

“We specifically chose roadside for the simple reason that it has demonstrated tremendous resiliency over the last 60 years, it continues to grow – with little hiccups along the way – but it continues to grow.

“Even as people move to mobile and get away from traditional paper – newspaper, and even television, is suffering – people continue to walk outside and commute from Point A to Point B. People remain mobile. So, unless you are one of those people who walk along the street with your nose buried in your phone, you will be looking around as you walk along the street and your eye will be drawn to these panels which are pretty much everywhere.

“The UK has a strong, regimented framework which means you cannot throw up a billboard anywhere. You have to go through a planning authority. You have to do it right. And you have to know how to do this. That was part of the selection of the right team.

“Having invested in a business led by a veteran like Damian Cox, this allowed us to capitalise on an opportunity that I believe is like a tower company. It looks and feels like a tower company. Will it trade at a 30x multiple like the most recent towerco deal in Ireland? I certainly hope so.”

While Wildstone is one of the jewels in the crown of Steven’s achievements at Digital Colony, it is far from alone. He sits on the board of the Andean telecom partner business which has towers in Colombia, Chile and Peru.

“It continues to grow and I am working closely with the management team,” says Steven. “It is the same story with the Brazilian tower platform. I have been looking at Brazil for years. The people we work with there I have known since my PSP days.

“By happenstance, the CEO of Highline – Fernando Viotti – bumped into my colleague Cecilia Reissmeier at a conference a couple of years ago and after some conversation she said he had to meet me. He immediately replied that he knew me.

“We started talking and – fast forward one year, having built a relationship and getting comfortable with each other – we were able to invest in the platform of fewer than 300 towers. Today, after a series of tuck-in M&A and BTS awards, we are on track for over 4,000 towers having created the largest independent Towerco in Brazil.”

As you will have realised by now, relationships are key to Steven’s approach and central to the way he conducts business.

“I am not one of these investors that shows up four times a year to a board meeting,” says Steven. “That is not the way we do it. It’s not the way I do it. I spend a lot of time talking with my management teams. I speak to my CEOs multiple times a week – constantly talking to them strategically and operationally. We are looking at performance of the business and figuring out a way to support them.

“That is what I love. I love the ops. I love talking to the management teams. It is not just looking at what the numbers say and comparing that with what it says on the spreadsheet. It is more a focus on how we are going to hit the metrics. What are we going to do? What are the next steps we are going to take? What are the programmes we’re going to put in place? What is our go-to-market strategy? I will even work with the management teams to develop relationships with key customers. I meet the MNO CEOs and spend a lot of time with them to build trust in that relationship.

“If you want to summarise me and how we do business at Digital Colony – that would be it.”

## There's more to life than work...

Steven is happily married to Leslie who patiently endures his arduous travel agenda that sees him away from home on average (in a normal year) 140 nights per annum. They complete the family with two children – daughter Katie aged 13 and son Jack, 11.

He does have interests outside of work, admitting: “The nature of the work we do is – without exaggeration – a 24/7 commitment. It just doesn't stop. But in between that and sleeping, I spend as much time as I can with the family.

“My son is an avid swimmer and he is on the swim team, while my daughter plays tennis and is a keen horseback rider. So I am either poolside, courtside or at the barn spending time with them.”

As to his own interests – beyond a keen fascination in finer things Bordeaux – Steven says: “I enjoy skiing and scuba diving. And I love doing these things with my family.”

## Message to the reader

When asked what message he would give to an infrastructure professional, Steven doesn't hesitate: “Do not be afraid to take risks – both career-wise and in your job.” He clarifies: “By that, I mean don't be afraid to take a chance on an idea and always drive towards your ambitions.

“I always had the ambition to lead transactions, to be involved on the front lines of a deal. There is no bigger high than being in the boardroom, sitting across the table from a seller or a buyer, trying to hash out a deal. It's a lot of fun.

“But it's not a race to the bottom, it is a marathon. Buying these businesses and acquiring these assets is just Step 1. The end game is integrating them into a platform and a strategy – and executing that.”

Steven adds: “Have conviction around your decisions in life... and always follow through on them. There are too many examples of people who just have ideas. Don't be that person.”

## A word from our sponsor...

Knowing Steven Sonnenstein as I do, nothing about the panel's unanimous decision to name him 2020's Outstanding Individual surprises me, writes Dan McCarthy of infra/energy recruitment specialist One Search.

He is a force of nature; a man with a competitive spirit and desire to win that I have seldom seem matched in this industry, yet at the same time a man of principle, a family man who operates with fairness and decency. He operates at a pace and bandwidth which most normal people could find slightly intimidating – yet in the words of one of his senior colleagues (who wished to remain nameless!) “Steven's hard work, passion and charm resonate with sellers, bankers and colleagues alike.”

I can think of a handful of people who possess all of these characteristics. But only one of them has positioned themselves so uniquely to take advantage of – and indeed lead – the breathtaking pile-in that we have witnessed when it comes to Infrastructure Funds and Digital assets. I can also think of only one Infra investor who can lay claim to the development of a whole new subsector in 2020 - Digital Billboards in the UK with the Wildstone aggregation.

Speak to anyone at the firm and they will tell you how Steven takes the time to teach and mentor junior staff and be a culture carrier for the firm. He also sits on Digital Colony's Investment and ESG committees and has been a champion for diversity throughout the firm and across the industry. I know from personal experience that when Digital Colony came on board the One Search YWIF scholarship program, it happened as a result of Steven's persistence, because he believes so passionately in what we are seeking to achieve and he is prepared to find time to invest in helping us get there.

Congratulations to Steven on this recognition from his peers in the industry – it is well deserved, and just the latest in a very long line of achievements and accolades as his career goes from strength to strength.

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