They said it'd pick up in September…

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It's always annoying to have sources wisely intone that the summer lull will end once we're out of August. Of course it bloody will. But blimey, there's picking up – and there's PICKING UP. Sweltering September in London and the market's gone utterly bonkers.

What a week for news it's been. Though, to be fair, silly season never really seems to kick in properly for infrastructure and energy these days. There was a time we used to send out 3 newsletters per week in the summer. That hasn't happened for a long time as – even through summer – the market continues to move at a fairly brusque clip.

But we're now into September and the first full week of the month has seen 3 landmark transactions close.

Behold with awe the acquisition of DIF Capital by CVC Capital Partners; take to your feet for Bridgepoint Group agreeing to acquire New Jersey-based Energy Capital Partners (ECP); and then raise a glass to KKR for ponying up a significant wad of cash for a 45% stake in UK-based battery storage firm Zenobē.

What a week to be alive!

However, none of this is taking us by surprise. At IJ, we've been banging on for ages that the mega infra funds – and private equity looking to go from zero to infra/energy hero, possibly for the ESG credentials (fig leaf) they sadly lack – would see fund managers snapped up.

It's an obvious gambit that saves a whole bunch of grief originating assets as this becomes ever more difficult – even for folk with deep experience in the sector.

So, they take a look around, maybe go an infra conference or 2, listen to people who actually know what they're talking about… and the answer's staring them straight in the face. Buy the farm, not a field… but brace for some serious multiples!

That is very much the case for CVC partners and its €1 billion acquisition of Netherlands-based infra fund DIF. What an excellent choice. Good underlying assets – even its Core+ strategy is pretty core. And it has a strong and established team (a good number of them household names).

And it's much the same story for Bridgepoint – making its entrance into the infra space – though it's not getting quite so strong ESG plaudits for the acquisition of ECP. Looking at the IJInvestor database and trawling through ECP's website… some of their realised assets are enough to make you blush (oil-fired peaking plants) and there's still a few gas-fired assets in there.

Having said that, the existing asset base is clearly transitioning towards a green portfolio and it doesn't pay to look too closely at anyone's history. If you've been around for a while… there's always something rattling in that closet.

This deal has an enterprise value of £835 million ($1.05bn) and sees Luxembourg-based CVC acquire a majority stake in the infrastructure manager, while also providing a commitment to acquire the remaining shares "over time".

And then you have the KKR deal – buying into Zenobē. Needless to say, we think that winning a trophy at the IJGlobal ESG Awards 2021 for Infrastructure Deal of the Year swung it for them.

Joking aside, chapeau to the Zenobē team. They started the business 6 years ago with 3 people and it's now staffed up with 230 and operating across 7 countries. That's impressive.

It's taken a while for this deal to conclude (full completion expected at the end of October / early November once approvals are in) and some people were unkind about the process along the way… but everyone knew it would sort itself out.

And here we are. KKR has bought in to a really interesting company with a strategy that makes so much sense – from electric fleets (taking US school buses electric, just awesome) through to large-scale battery energy storage systems (BESS) and second-life batteries. Splendid stuff.

The shareholding now stands with Infracapital and KKR each having around 45%, JERA and TEPCO Power Grid holding a combined circa 5%, and the remaining (around) 5% held by management and private shareholders.

What does this mean for infra funds

Chatting with a few folk around the industry this week, the acquisitions of DIF and ECP were met with the same acceptance as on the IJ team that – while we haven't seen much of this sort of activity for a while, we're going to see a lot more of it.

One source – helpfully – refers to some past experience in this space as pointers for how well it works. Let's take a quick look at them.

An excellent example is Schroders' acquisition of a 75% stake in Greencoat Capital for £358 million which was well received. At the time, we wrote that it was "indicative not only of large asset managers' readiness to make multi-million investments into the renewables sector, but also of the growing appetite for established platforms with proven expertise". We wrote a case study on this in May 2022.

In May 2021, we reported on the John Laing board giving the green light to KKR's acquisition – with Equitix as a 50% partner. The £2 billion offer represented a 35% premium to John Laing's net asset value as at 31 December 2020 and a 27% premium to the closing price on 5 May (2021), the day before the takeover approach was announced.

Also early 2021, you have Nuveen's acquisition of renewable energy investor Glennmont Partners. Nuveen – the investment manager of the Teachers Insurance and Annuity Association of America – was a little ahead of the curve in this deal as it was a key part of the US giant's strategy to meet increasing demand for ESG products in financial markets.

Then you have the acquisition of an 80% shareholding in London-based asset manager InfraRed Capital Partners by Canadian financial services provider and insurer Sun Life Financial. Sun Life paid £300 million for the stake in a deal that was announced December 2019 and closed June 2020.

Looking a little further back – early 2015 – you have Hunt Companies acquiring a 50% interest in Amber Infrastructure, the UK-based developer and adviser on infrastructure projects. Amber Infrastructure Group includes Amber Fund Management which manages the listed infrastructure fund International Public Partnerships (INPP).

We could go further back… but, you know, deadlines!

Thoughts from the top

One senior source from the lending community says: “Other major listed money managers underweight in infra may look to replicate through their own acquisitions of the smaller infra specialist managers, that’s my view.”

He adds that it is probably viewed to be diversifying/improving multiples for existing listed (Bridgepoint) or prospective listed (CVC) funds to add infra and energy transition capability.

Another old mate, this one from an infra debt fund, adds: “It’s interesting as there had been a lot a few years back and then it slowed down. I am surprised as pricing will be high – for example around 20x multiples – and DIF was about €1 billion.”

This source points that it is “interesting PE sees value in management”, adding that the incentive for owner-led businesses is obvious, and possibly this is a “sign that infra is maturing away from owner-led businesses to institutional”.

Another infra fund veteran ponders whether it is mainstream private equity going infra, or the other way around.

The source says: “There has never been a standard definition of what infrastructure is, but the scope has been growing for years. Many businesses that would have gone LBO are now being captured in the infra net – which means lower cost of capital/higher price.

“If a PE fund wants to buy an asset on infrastructure borders – say a developer/buy and build – with fund target return at 20%, they will lose every auction. If they can raise “infra” capital and buy for a 10-12% IRR, they might win, keeping capital invested generating management fees and carry for the team! ‘Everybody’ wins… except the LPs.”

This is followed by an excellent point that a good deal of activity on this front will be led by infra fund founders looking to retire, cashing in for a diamond-encrusted retirement.

For those whose memories reach back as far as 2007, you may recall the acquisition by Land Securities Trillium of the Secondary Market Infrastructure Fund (SMIF). I well recall being told that the day after it completed, Bill Doughty et al went out and bought supercars.

As for the sellers of DIF, one cannot help but wonder whether or not they are leafing thoughtfully through Sunseeker catalogues.