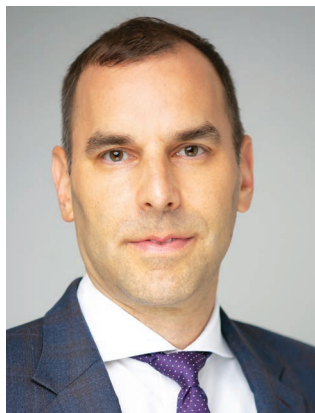


KEYNOTE INTERVIEW

Charting a new course



*Basalt Infrastructure Partners' **David Greenblatt** and **John Hanna** discuss the benefits of taking a decarbonised approach to transport*

The world's transport infrastructure is undergoing significant change. Roads, airports, maritime vessels and railways – as well as the supporting infrastructure and adjacent sectors that support these networks – are having to cope with larger populations and configure with emerging sustainability demands.

Basalt Infrastructure Partners is one firm increasingly focusing on this space, capitalising on the need for new capex as well as downside protection that the sector can offer (with the right structuring). David Greenblatt, partner and head of North America at the firm, and John Hanna, partner and head of Europe, reveal the transport opportunities that stand out as well as what's required to successfully access those.

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Q How is the need for decarbonisation playing out across different transport subsectors?

John Hanna: Transport is an asset-heavy part of the market and companies in this sector typically have a pretty carbon intensive asset-base. Traditionally that has all been powered by fossil fuels, but this is changing, either because of regulations or customer-led demand for more sustainable transport.

The maritime space is a good example of this dynamic, with older vessel fleets typically all running on marine

gas oil. The need for the maritime sector to reduce its carbon emissions is creating demand for fresh capital to help deliver transformation. We have extensive experience of doing that and have already delivered a number of vessels that are dual fuel with LNG and hybrid battery technologies, while also planning and developing fully electric vessels.

For more than a decade, we've been investing in maritime infrastructure. Ultimately, if you're somebody who understands the maritime space and are seen as a strategic partner, as well as a financial investor, you can find attractive opportunities that others may miss. This is about delivering strategic thinking, as well as the capex needed.

Q Is there a case for accessing opportunities in adjacent infra sectors, and not directly via transport assets?

JH: We're always considering more creative ways to gain access to essential service assets. Aviation is a good example of this, and we like the long-term growth that the sector offers. Airports are difficult to access, which in the mid-market can be quite volatile due to competitive dynamics. They're also very desirable assets and therefore people pay pretty high multiples for them. And ultimately, you've got no real protection on the downside.

We looked for ways to get that long-term aviation growth, but with a contract underpinning it. That's why we acquired a business called Unilode, which provides the containers and pallets that carry cargo in the belly of aircraft. We believe the advantage of that type of business is that you have long-term contracts of typically around six to 10 years with airlines.

There are also floor mechanisms within those contracts that protect your downside, and you have mechanisms that help recontract at the point of expiry. As aviation activity increases the need for those pallets and containers, you get long-term growth but with protected downside.



SOURCE: CELSIUS SHIPPING

DG: Another example of this is the LNG space. We've been an active investor in LNG carrier portfolios and it's a segment that we like because of the downside protection. Vessels are operated under long-term contracts, typically north of 10 years, which we believe is a terrific revenue model. We continue to see significant demand in this space and expect to continue exploring opportunities to grow the portfolio.

When we think about transport, we want businesses that provide an essential service. This could include a ferry that is the only link between an island community and the mainland, something people rely on for commuting, delivering freight or other essential transport. With that, you get a large, non-discretionary user base with limited price volatility.

That also gives you a level of downside protection that you need in an infrastructure strategy. Once we establish those underpinning requirements for the service, then we think about how we can grow the business.

David Greenblatt: We also see this in the public transport space, where there's a massive push to transition to electric

vehicles. We have a bus operating business in the Nordics, called Nobina, which we acquired a few years ago. The firm has long-term, decade-plus year contracts with municipalities to provide buses and run traffic routes.

There's now a significant customer-driven requirement for electric buses and the business is transforming its fleet from diesel buses to EVs. Since we acquired the business in 2022, the proportion of the fleet that is electric has grown from 5 percent to more than 25 percent and the business continues to drive this transition.

The capex need for this transition is significant, and as a listed company prior to Basalt's acquisition, this was a real challenge for Nobina. Being able to delist the business

and provide the capex required to help fund the transition has really accelerated Nobina's shift towards a decarbonised fleet. It's a good example of how the energy transition is creating meaningful opportunities for private investors to come in and fund decarbonisation.

A common theme for us is to acquire conventional businesses, in this context transport businesses, and then look for opportunities to reposition them through our investment holding period.

Nobina is a good example of this. Three years into our ownership more than 25 percent of the fleet is electric and we're expecting this to be north of 50 percent by the time of our exit. This is something we can use to show the

market how decarbonisation can truly work.

Q Where do you see the most appealing markets for transport infra assets?

DG: We're feeling very bullish about North America. A strong pipeline of opportunities has evolved more recently, which fits our target risk profile – assets with value creation potential and strong downside protection. We believe a good example of this is our first transport acquisition in North America, a ground support equipment (GSE) business called Fortbrand.

A key part of our strategy is uncovering relative value opportunities across our two target markets. We've been active in both Europe and the US for over 15 years and we're constantly researching similar assets on both sides of the pond to spot relative value that others may miss. For example, we saw GSE businesses in Europe and liked the business fundamentals.

But these businesses are embedded in a more mature market and therefore harder to access. We saw Fortbrand and liked its business model. At the time, it was expanding and had a nice decarbonisation trend that we could work with. In addition, we were able to access it at a significantly lower entry multiple than we would have had if it was in Europe.

“We’ve been an active investor in LNG carrier portfolios and it’s a segment that we like because of the downside protections”

DAVID GREENBLATT

That really speaks to how we seek to identify relative value by studying different markets. Europe and North America are both large, but when you look across different countries and individual states and provinces, the revenue models and regulatory frameworks are very diverse.

With Fortbrand, what we're excited about is the revenue model, where you have long-term leases, offering good downside protection and further opportunities to recontract at the end of the initial lease term, as well as the opportunity to invest further capex and seek to drive value through tapping into the decarbonisation shift.

Q From an investor perspective, what's required to successfully access such opportunities?

JH: The key thing about these businesses is that they're typically very active. And they really need similarly active investors that are able to work closely with their management team. They need investors to look at what's required to meet customer demands and deliver good services. You clearly also need sector experience, and we have that. We've worked through various cycles and operational challenges. That enables us to go in as strategic partners as well as financial investors.

DG: Companies really appreciate that. They're looking for a “safe pair of hands” operation, with like-minded people aware of the risk profile of businesses, who want to help it grow. That's extremely critical as we approach potential targets, particularly family-owned businesses. Yes, they want to get fair value, but they also want to work and partner with a group that they can trust.

Q How do you view the outlook for 2025, operationally as well as the challenges that lie ahead?

JH: It's important to think about essential services because by its definition

“The great thing about transport is – if properly structured – it really gives you a growth opportunity, over and above what you typically see in say a regulated utility business”

JOHN HANNA

transport assets are exposed to economic growth. And there will typically be some level of GDP linkage. However, given the geopolitical issues and inflation concerns in the world today, it's more important than ever to have downside protection within transport assets.

That gives you comfort that your investment can weather potential volatility during your hold period. Particularly while you then go about implementing your business plan to grow the asset and drive value. When we look at our opportunity set, we're also very bullish. We still see a large pipeline of opportunities across our target markets and expect further investments to be unlocked in North America.

The great thing about transport is – if properly structured – it really gives you a growth opportunity, over and above what you typically see in say a regulated utility business. With transport, you have that link to economic growth and the chance to invest actively, boost capacities with capex and – with the right assets – look to ensure downside protection. ■