

KEYNOTE INTERVIEW

The engine room of infrastructure investing



While many investors are busy growing out of the mid-market, the space offers a range of investment, value creation and exit opportunities across multiple regions, say Basalt Infrastructure Partners' [John Hanna](#) and [David Greenblatt](#)

The infrastructure market has evolved and matured over the past decade, with new asset types falling under its umbrella and funds attracting significant amounts of capital. But there are still plenty of attractive transactions to be found in mid-market asset-backed businesses in Europe and North American, say John Hanna and David Greenblatt, managing partners at Basalt Infrastructure Partners.

Q What are the main attractions of investing in mid-market infrastructure?

John Hanna: Deal sourcing is a big attraction. Most infrastructure capital

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today is raised in the large-cap market and many of our peers are actively trying to raise more AUM and grow out of the mid-market. That's despite the mid-market accounting for 80 percent of infrastructure deals – there's a good balance of more deals and less capital to fund them.

There's also a broad spectrum of deals in the mid-market, which we'd define as transactions with an enterprise value of less than \$1 billion,

and equity tickets of \$200 million up to \$400 million. At the lower end, investors can form strategic relationships with developers and operational partners to build up platforms of assets effectively from zero. At the higher end, you can do public-to-private transactions, carve-outs from strategics or buy family-owned businesses. That's a wide range of deal types to target.

What investors can do with these businesses is another main attraction. They often don't have the capital they need to scale – many operational businesses in the mid-market are serving their stakeholders, customers and markets locally, but they need additional

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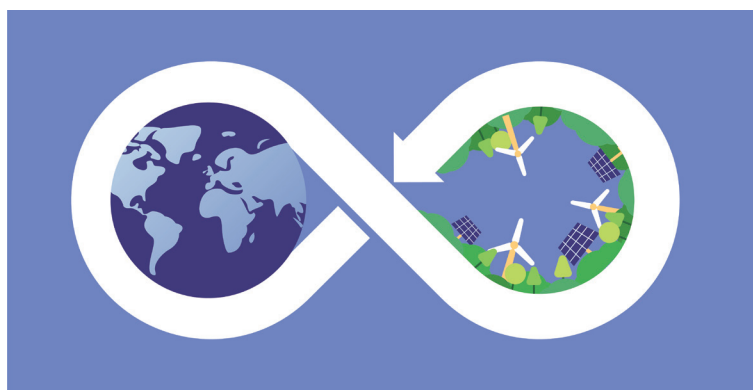
JOHN HANNA

Q Where do you see the most scope for improvement in mid-market infrastructure businesses?

JH: Typically, these companies need capital to fund growth and development, plus active shareholder support to position them for the future. In European transport, that’s often a decarbonisation story. As an example, many European countries are trying to move their public buses to electric fleets, but the operators don’t necessarily have the capital or existing financing headroom to do that. There are opportunities for investors to bring capital to help them achieve that.

It’s a similar story in the circular economy. European regulations seek to reduce waste going to landfill and so there are many localised, almost monopolistic businesses providing essential waste treatment and recycling services to large industrial customers. Yet demand is outstripping what they can supply; they need capital to help meet demand as well as support to improve efficiency by professionalising and digitalising the business.

DG: There’s often some complexity in these investments. We believe there’s significant scope for bringing in an institutional framework, but there are also benefits when the founders stay in the business to continue its next stage of growth.



funding and support to meet a growing level of demand and reach the next level of maturity. The liquidity constraints could be because they’re family-owned and lacking further capital to invest, strategies with other conflicting demands for capital objectives or listed companies with dividend yield requirements.

Q How do these dynamics and attractions vary across different regions?

David Greenblatt: They can vary a lot – and we see a lot of potential advantages to transatlantic investing, not just for diversification by geography but also by sector. For instance, we’ve

historically found sectors such as power and utilities in North America, and transport in Europe, to be more attractive. We believe this can help to achieve sector balance while capturing relative value in different sectors across regions.

Having a presence on the ground in these markets matters, too. Asset owners value partners who can demonstrate strong local market and sector knowledge.

Q Can you provide any examples of the relative value you mentioned?

DG: In 2017, if we look at district energy businesses – regulated steam

and chilled water utilities in Europe – they were trading at EV/EBITDA multiples in the high teens, yet when looking at North America there were similar businesses that could be accessed at much lower multiples.

JH: We’ve been tracking the aviation sector in recent years, and we observed that the European ground support equipment market was mature: around 30 percent of equipment is outsourced and there’s a dominant infrastructure fund-owned company in the space.

However, the US market is much less mature; just 5 percent of ground support equipment is outsourced, the

market is fragmented and the businesses are far smaller. This presents an opportunity for investors to buy a business earlier in its lifecycle at an attractive price and grow it into a more valuable platform. That's pretty typical of the mid-market – unlike the large-cap space that tends to be efficiently covered, there are more immature assets and segments ripe for growth.

Q As data centre roll-outs gather pace, how are US mid-market power opportunities developing?

DG: We're excited because we believe there are tremendous opportunities. Data centres are the biggest driver, but overall power demand is increasing for the first time in over a decade. That's creating demand for new generation across the board.

We believe there are opportunities for distributed, behind-the-meter generation to provide customers with reliable and clean power, particularly where there are interconnection or procurement constraints.

Q How have infrastructure market evolutions affected the mid-market?

JH: Infrastructure investing is growing, but it has faced real structural challenges in the past four years. Between 2010 and 2022, a lot of capital was

raised and deployed in all size ranges. The macroeconomic forces that hit in 2022 – inflation, interest rate rises – have slowed capital flows back to investors materially.

Yet the mid-market's been less affected because there are more exit routes for the size of business that you're selling. There is also more room for growth ahead of the exit at the end of the ownership. The mid-market can sell to a range of buyers, including larger mid-market players or the portfolio companies owned by large capital investors. We see this as critical for returning capital to investors.

The mid-market has also been at the forefront of evolving the asset class to include some less mature investment opportunities by funding the first stage of scaling them up. This is proving the thesis behind the essential service that they deliver and demonstrates that this can happen under institutional ownership.

Q What about expansion into areas that might not have previously been considered infrastructure investments?

DG: The mid-market more broadly has been a testing ground for next-generation infrastructure classes; there are some transactions where it's questionable whether they're infrastructure investments at all, and that's carrying through to the large-cap space, although we believe the best opportunities remain in essential service businesses and conventional infrastructure assets.

JH: In our view, investments must be asset-backed and assets must provide an essential service, because that provides robustness and resilience with downside protection as well as capital preservation. We see this as more attractive than targeting lower margin businesses, where the workforce provides the service and it's much less about the asset.

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Q Given it's been a tough market to sell into over the past few years, what developments are you seeing for exits?

JH: Pre-2022, many investors had a clear playbook of selling to long-term core money, but there's less of that around today, and where it does exist it's seeking a higher return. Investors are therefore working hard on positioning their assets for a credible and deliverable growth story that a buyer can get behind. They're also working to make assets attractive to as wide a range of buyers as possible.

In the past 12 months, there has been a great opportunity to sell to infrastructure fund-owned strategies that are seeking bolt-ons because they can often look at G&A expenses and growth opportunities differently than a pure infrastructure fund can.

Q What future trends should we look out for in mid-market infrastructure?

JH: We're seeing many managers pivot to sector- or geography-specific strategies. Yet infrastructure cycles can move quickly, sometimes within an investment period. We believe the best chance of success lies in remaining consistent with what you've done before and staying in a part of the market where you have a track record for delivery and value creation. ■

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DAVID GREENBLATT