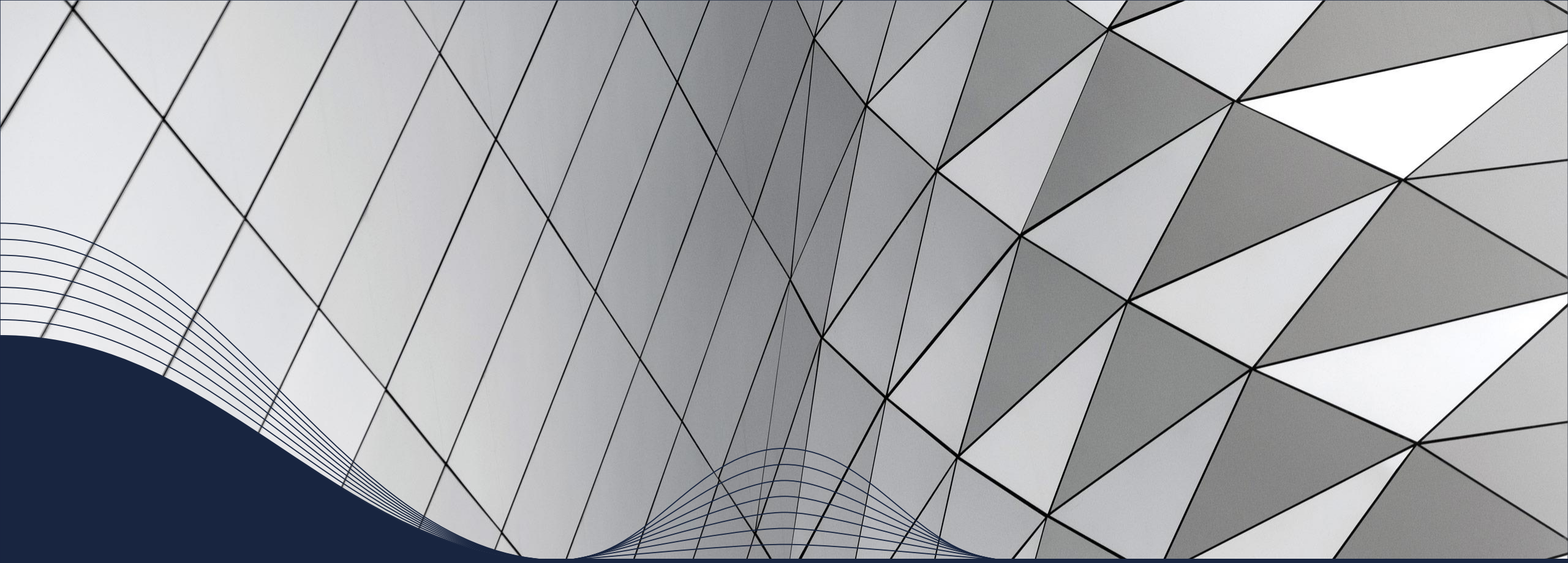

Attracting infrastructure investors to submarine cable assets

PTC 2024 “Lightning Talk”

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Presenter

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- Mike is co-chair of the international telecoms practice at global law firm DLA Piper. He is rated as one of the leading telecoms lawyers in the world by all the various guides and is the editor of *The Communications Law Handbook*
- Mike has a particular focus on submarine cable projects, having worked on more than 100 submarine cable engagements over a period of more than 20 years.

Infrastructure Investors

- Traditionally “infrastructure investors” have looked to “core” investments in roads, ports, bridges, hospitals.
- They look to own real assets with:
  - High barriers to entry
  - Long term and stable returns
  - Recognised and established technology
  - Transparent and stable regulatory environments
- More recently they have started to take seriously the category of “digital infrastructure”. FTTP projects have attracted multiple US$billions (especially in UK/Europe), so have mobile towers and – now especially - data centres.
- These are “core plus” - to reflect the additional market risk over traditional “core” infrastructure
- But not really any interest in submarine cables from this category of investor. Why?

The Criteria infra investors look for (1)

- Barriers to Entry?
  - No permit or permission is needed to build in international waters. Landing permits / permits in principle are available reasonably easily in mature markets (less so in emerging markets)
  - Cost is low compared to other infrastructure projects)
  - So – this criterion is **often not met**
- Long Term / Stable returns?
  - New projects often involve pre-sales of spectrum or an entire fibre-pair on an IRU basis - IE large upfront payment. Locks in revenue at the outset – but much smaller annual payments.
  - Largest users are OTTs – they are OK to spend capital but want to reduce opex. This is the *opposite* customer profile to the one infra investors look for!
  - New cables can become technically obsolete quickly as technology advances (especially for cables connecting major economic centres). So value of sales in the business case are much less certain after, say, 5 years from RFS
  - So - this criterion is **often not met**

The Criteria infra investors look for (2)

- Established Technology
  - Usually investors have a high degree of confidence that the cable that is planned can actually be built
  - Fixed price turnkey contracts are common and suppliers are reliable
  - Most submarine cable projects end up being built at the agreed price in the turnkey contract
  - So – this criterion is **usually met**
- Stable regulatory environment
  - In mature markets the regulatory landscape is usually clear
  - Regulator is typically predicable (aside from blocking of Pacific Light Cable Network) – at least after the cable has been built
  - In some emerging markets this is less clear.
  - So – this is **usually met** (for many routes)

Summary

- High Barriers to entry? Not usually
- Long Term Stable Returns? Not usually. **This is likely the most significant issue.**
- Established Technology – Yes, usually
- Transparent and stable regulatory environment – on some routes

Overall, data centres, FTTP and towers look to be better bets!

So could a project be designed to overcome these issues?

Overcoming the issues for infra investors

- Find a niche route, eg:
  - one for which a second cable would not be justified for many years – as a parallel, in FTTP projects some investors focus on rural areas
  - or one landing at a unique / difficult to replicate location
- This will mitigate the “barrier to entry” issue
- Look for long term ongoing and material revenues, eg:
  - from a segment within the submarine cable sector - such as a supplier of capacity / marine services to many customers who use the submarine infrastructure alongside something else (like a data centre)
- Use established, reliable technology
- In mature, predictable markets

Overcoming the issues for infra investors

- Could open access landing stations work like this?
  - If multiple cables land at the same site then to some degree there are barriers to entry – it would be hard to replicate this on a new site
  - They could be used as POPs / data centres for interconnection, avoiding backhaul costs – to create long term and stable revenues
  - Using established technology
  - In stable and predictable countries
- So – there is perhaps potential in sale and leaseback of landing stations to new “landingstationcos” – akin to towercos in the mobile sector.

Thank you

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